COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER

KENNETH HAHN HALL OF ADMINISTRATION
500 WEST TEMPLE STREET, ROOM 525
LOS ANGELES, CALIFORNIA 90012-2766
PHONE: (213) 974-8301 FAX: (213) 626-5427

J. TYLER McCAULEY
AUDITOR-CONTROLLER

August 12, 2003

TO: Supervisor Yvonne Brathwaite Burke, Chair
Supervisor Gloria Molina
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: J. Tyler McCauley By PTM
Auditor-Controller

SUBJECT: **DEPARTMENT OF MENTAL HEALTH FISCAL REVIEW**

We have completed our Department of Mental Health (DMH or Department) Fiscal Review. Our review focused on evaluating the Department's budgetary performance, internal controls, and compliance with County fiscal policies and procedures in key fiscal areas including budgeting, expenditure accounting, revenue accounting, procurement, and contracting. We also followed up on our April 2000 Trust Fund Fiscal Operations Review and on our June 1999 Payroll, Personnel, and Travel Operations Review. In addition, we evaluated the Department's management of the Internal Control Certification Program.

Summary of Findings

The review disclosed various areas where DMH's financial operations need to be improved. We found that DMH was often not complying with County procurement controls. In addition, DMH has not always complied with County requirements for basic financial computations such as accounts payable and revenue accruals. We also noted that oversight of its budget compliance could be improved by implementing more budget units. DMH currently only has one budget unit for the entire department. In regards to contracting, DMH has not competitively bid numerous provider contracts. Overall, the issues noted are significant and it will take a significant effort on the part of DMH management to implement the improvements recommended in this report.

Budgeting

We compared the Department's actual financial results to its budgets for FYs 1998-99 through 2001-02. For the first three fiscal years, DMH consistently over budgeted both revenues and expenses. This occurred because the Department was unable to fill positions and obtain contracts for the expansion of existing programs and initiation of new programs at the anticipated rate. These revenue and expenditure variances generally offset each other. There were significant Intrafund Transfer variances during each of the first three years caused by DMH and the Department of Public Social Services (DPSS) not being able to implement the CalWORKS Program as quickly as projected.

For Fiscal Year 2001-02, with the exception of a $25.5 million underrealization of revenue, the budget variances were relatively minor. The net Revenue variance was caused primarily by the adjustment of Realignment Revenue to meet Maintenance of Effort (MOE) requirements. However, we also noted significant variances amongst the various revenue types. For example, there was a $59.1 million underrealization of Fee For Service (FFP) Medi-Cal revenues. There were also significant issues related to Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT) revenues. In order to help ensure the accuracy of future budgets, DMH management needs to review the methods used to project the various revenue types to identify areas where the projections could be improved.

In addition, DMH has established only one budget unit for the Department. Because of its size and operational diversity, one budget unit does not provide sufficient detailed information to allow Department management to properly oversee and control the Department's operations. DMH needs to increase the number of budget units to provide a stronger basis for planning, decision making, and controlling the Department's operations.

Expenditure Accounting

DMH did not accurately determine their accounts payable at the end of FY 2000-01 and overstated certain expenditures by as much as $2,794,000, including $676,000 that should have been recorded as FY 2001-02 expenditures. The reverse situation also occurred. At the end of FY 2000-01, DMH did not accrue $2,770,000 in contract service provider expenditures and instead charged them against FY 2002-03's budget and contracting authority. DMH also failed to accrue $13,519,086 in contract expenditures for FY 1998-99, $10,362,836 for FY 1999-00, and an additional $13,136,989 for FY 2000-01. By not accurately accounting for its payables, DMH is misstating the amount it owes at year-end. This misstates the County's financial position and distorts the fund balance available to finance the following year's budget. DMH needs to ensure that accounts payable are established only for goods and services received on or before June 30 and that all valid payables are accrued.

In addition, DMH is not carefully reviewing outstanding commitments. We observed that $251,087 in commitments should have been cancelled because final payment had been made on those items. DMH needs to properly monitor commitments and timely cancel unnecessary balances to avoid understating the year-end fund balance available to help finance the following year's budget.

Revenue Accruals

Both the County Fiscal Manual (CFM) and the Auditor-Controller's Annual Closing Instructions prohibit departments from accruing revenue that will not be collected within twelve-months after the end of the Fiscal Year. However, at the end of FY 2001-02, DMH was planning on accruing approximately $54 million as revenue that would not be collected until FY 2003-04 or longer. Similar accruals for a lesser amount had previously been accrued. These accruals were discovered because of inquiries made by the Auditor-Controller's Accounting Division and were related to the EPSDT Program. DMH had not previously informed the Chief Administrative Office (CAO), the Board, or Auditor-Controller of the cash flow problems of this Program. In order to ensure the financial solvency of the County, DMH management needs to ensure it complies with County revenue accounting requirements and reports cash flow problems promptly to the Board, the Chief Administrative Office, and the Auditor-Controller. It should be noted that the problems with the EPSDT accruals were previously reported to the Board and corrective actions were taken.

Procurement

County Fiscal Manual (CFM) Section 4.1.2 requires departments to monitor expenditures to adhere to the approved budget and ensure expenditures are made in accordance with applicable laws and established County policies and procedures. DMH spends $174 million annually for services, supplies, and fixed assets, not including contract provider and fee for service payments. In general, we found DMH's controls over procurement to be weak, because DMH is not following established practices. DMH is utilizing sole source purchases rather than obtaining required bids and is not obtaining and adequately documenting required Internal Services Department (ISD) approvals for sole source contracts. Vendors are not always paid timely, in large part because receiving reports are not processed promptly by outlying units. DMH's Procurement unit has overall responsibility for the majority of DMH's procurement functions but allows significant exceptions to this rule enabling other units to process procurements. DMH could decrease their procurement costs and improve control of their purchasing activities by investing more effort in procurement management and compliance with County procurement policies and procedures.

Contracting

Contract provider services cost in excess of $400 million per year. Most of the

Department's contracts are established for three-year terms with options to renew for an additional two years. Although County Code Section 2.104.190 states that competitive bidding is the preferred method by which departments should procure services, only three of the 108 existing provider contracts were competitively bid. DMH needs to develop procedures to periodically award and renew contracts for mental health services through a competitive bidding process, establish a goal to annually increase the number of contracts awarded using this approach, and acquire a County Counsel opinion regarding whether more of the contract providers are subject to Proposition A requirements.

Acknowledgment

We thank DMH management and staff for their cooperation and assistance during our review. Management recognizes the need for improvement and has indicated its commitment to improving the Department's internal controls. DMH management's written response (attached) indicates general agreement with our recommendations and that they have already taken actions to implement many of the recommendations.

If you have any questions regarding this report, please contact me or have your staff contact DeWitt Roberts at (626) 293-1101.

JTM:PTM:DR:IDC:GWM

Attachments

c: David E. Janssen, Chief Administrative Officer
Dr. Marvin Southard, DSW, Director, Department of Mental Health
Violet Varona-Lukens, Executive Officer
Public Information Office
Audit Committee (6)

Department of Mental Health

Fiscal Review

Table of Contents

DEPARTMENT OF MENTAL HEALTH
FISCAL REVIEW

COMMENTS AND RECOMMENDATIONS

BACKGROUND

The Department of Mental Health (DMH or Department) operates more than 40 program sites throughout the County and contracts with more than 350 community-based agencies and individuals as partners to provide a full spectrum of mental health services. DMH provides a client-centered, family-focused, integrated mental health system with a commitment to local/neighborhood control and direction of services. The Department serves adults and older adults who are functionally disabled by severe and persistent mental illness as well as those who are low-income, uninsured and temporarily impaired or in situational crises. DMH also services seriously emotionally disturbed children and adolescents who are diagnosed with a mental disorder.

The Department consists of over 2,500 full-time equivalent employees organized into 11 bureaus: Standards and Professional Conduct; Training and Cultural Competency; Critical Care; Public Guardian; Chief Information Officer; Adult Systems of Care; Children's Systems of Care; Crisis and Homeless Systems of Care; Planning, Quality, and Outcome; Financial Services; and Administrative Services. DMH's Fiscal Year (FY) 2001-02 gross appropriations were $995.4 million with a Net County Cost (NCC) of $88.5 million. The Department's operations are funded primarily by the County General Fund (CGF), federal and State programs, insurance, and self-pay revenues.

SCOPE

Our review focused on evaluating the Department's budgetary performance, internal controls, and compliance with County fiscal policies and procedures in key fiscal areas such as budgeting, expenditure accounting, revenue accounting, procurement, grants, and contracting. We interviewed DMH management and staff and examined and tested applicable accounting records and documentation. We also followed up on our April 2000 Trust Fund Fiscal Operations Review and on our June 1999 Payroll, Personnel, and Travel Operations Review. In addition, we evaluated the Department's management of the Internal Control Certification Program (ICCP).

BUDGETING

The Department is responsible for managing its financial operations in accordance with its annual Board approved budget. During our examination of DMH's adherence to its General Fund budget, we compared the Department's actual financial results to its budgets for FYs 1998-99 through 2001-02. It should be noted that DMH has a Maintenance of Effort (MOE) requirement related to Program Realignment and Vehicle License Fee revenues and its NCC amount is a derived number to meet the MOE requirements. At the end of each fiscal year, when the final MOE is known, transfers either to or from the Realignment Program Revenue Trust Fund are made so that DMH's NCC equals the MOE.

The following is a summary of the budget variances:

Budgeted and Actual Financial Results
FY 1998-99

	BUDGET	ACTUAL	OVER OR <UNDER> BUDGET
S&EB	$116.88 million	$105.22 million	<$11.66 million>
S&S	$443.71 million	$375.64 million	<$68.07 million>
Other Charges	$71.71 million	$71.71 million	$0.00 million
Fixed Assets	$0.22 million	$0.15 million	<$0.07 million>
Intrafund Transfers	$28.30 million	$7.30 million	<$21.00 million>
Revenue	$556.46 million	$493.01 million	<$63.45 million>
Net County Cost	$47.76 million	$52.41 million	$4.65 million

Table 1

Budgeted and Actual Financial Results
FY 1999-2000

	BUDGET	ACTUAL	OVER OR <UNDER> BUDGET
S&EB	$165.01 million	$128.27 million	<$36.74 million>
S&S	$553.80 million	$480.59 million	<$73.21 million>
Other Charges	$69.80 million	$68.87 million	<$0.93 million>
Fixed Assets	$0.70 million	$0.68 million	<$0.02 million>
Intrafund Transfer	$33.24 million	$15.32 million	<$17.92 million>
Revenue	$699.81 million	$595.00 million	<$104.81 million>
Net County Cost	$56.26 million	$68.09 million	$11.83 million

Table 2

Budgeted and Actual Financial Results
FY 2000-01

	BUDGET	ACTUAL	OVER OR <UNDER> BUDGET
S&EB	$189.00 million	$152.95 million	<$36.05 million>
S&S	$602.21 million	$586.19 million	<$16.02 million>
Other Charges	$64.17 million	$62.49 million	<$1.68 million>
Fixed Assets	$3.67 million	$3.43 million	<$0.24 millions>
Intrafund Transfer	$36.21 million	$26.61 million	<$9.60 million>
Revenue	$748.91 million	$691.89 million	<$57.02million>
Net County Cost	$73.93 million	$86.56 million	$12.63 million

Table 3

Budgeted and Actual Financial Results
FY 2001-02

	BUDGET	ACTUAL	OVER OR <UNDER> BUDGET
S&EB	$183.72 million	$182.75 million	<$0.97 million>
S&S	$754.88 million	$746.09 million	<$8.79 million>
Other Charges	$54.38 million	$54.01 million	<0.37 million>
Fixed Assets	$2.39 million	$1.71 million	<$0.68 million>
Intrafund Transfer	$41.92 million	$40.54 million	<$1.38 million>
Revenue	$864.97 million	$839.50 million	<$25.47 million>
Net County Cost	$88.48 million	$104.52 million	$16.04 million

Table 4

For the first three fiscal years, DMH consistently over budgeted both revenues and expenses. DMH indicated that this occurred because they were unable to fill positions and obtain contracts for the expansion of existing programs and initiation of new programs at the anticipated rate. These revenue and expenditure variances generally offset each other. In regards to the Intrafund Transfer variance, DMH management indicated DMH and the Department of Public Social Services (DPSS) were not able to implement the CalWORKS Program as quickly as projected. The anticipated level of consumers was overstated, resulting in underrealizations of DMH intrafund transfers.

For Fiscal Year 2001-02, with the exception of revenue, the budget variances were relatively minor. The net revenue variance was primarily due to the adjustment of Realignment Revenue to meet MOE requirements, as previously discussed. However, we noted significant variances amongst the various revenue types. For example, there was a $59.1 million underrealization of Fee For Service (FFP) Medi-Cal revenues and overrealizations of federal miscellaneous revenue ($19.6 million), Medicaid Section 1115 Waiver funds ($49.9 million) and Administration Short-Doyle/Medi-Cal - FFP revenues ($15.4 million). As discussed later, there were also significant issues related to Early and Periodic Screening, Diagnosis, and Treatment Program (EPSDT) revenues. In order to help ensure the accuracy of future budgets, DMH management should review the methods used to project the various revenue types to identify areas where the projections could be improved.

Recommendation

1. **Mental Health management review the methods used to project the various revenue types to identify areas where the projections could be improved.**

Budget Units

The California Government Code provides the County with significant flexibility regarding the degree of budgetary control it utilizes. The County can establish one budget unit per department or it can establish numerous budget units to control separately the various functions performed within a department.

The County has historically established multiple budget units for large complex departments. For example, the Department of Health Services (DHS) has nine General Fund budget units along with six Hospital Enterprise Fund budget units. DPSS has five budget units and the Sheriff Department has seven budget units. However, the County currently has only one budget unit for the entire Department of Mental Health which is a large and complex department. DMH had a final adopted budget for FY 2002-03 of $1,043,409,000 in gross appropriations.

Because of its size and diversity, DMH should increase the number of budget units to provide a stronger basis for planning, decision making, and controlling the Department's operations. We believe increasing the number of budget units would improve the Department's budgetary controls and information reporting to the Board. Consideration should be given to creating budget units based on one or more of the following organizational units within DMH:

- Financial Services Bureau
- Childrens Systems of Care Bureau
- Adult Systems of Care Bureau
- Pharmacy Services
- Critical Care
- Public Guardian
- Chief Information Officer Bureau
- Crisis and Homeless Systems of Care
- Bureau of Standards and Professional Conduct

If DMH believes that formal budgetary control for these separate units would hinder its ability to operate, the Board and DMH should consider using the "presence control" feature of the Countywide Accounting and Purchasing System (CAPS). By using "presence control", the DMH budget would be formally controlled on a department level basis, but the budget would be broken down in the accounting system by the above functions for information and monitoring purposes. This would provide for the communication improvements of a more detailed budget, while providing DMH with maximum operational flexibility.

Recommendations

2. **The County use more budget units to improve control and monitoring over DMH's budget.**

3. **If DMH believes such controls would be too restrictive, the County and DMH consider using the "presence control" feature of the Countywide Accounting and Purchasing System.**

EXPENDITURE ACCOUNTING

Accounts Payable

The Department needs to significantly improve its accounting for accounts payable. For FY 2000-01, Fiscal Services Bureau (FSB) staff did not analyze year-end purchases to determine accounts payable amounts. Instead, staff established payables at year-end for the entire remaining balance of encumbrances. For example, at the end of FY 2000-01, DMH established accounts payable totaling $4,291,000 based on the remaining balance of 36 blanket purchase order encumbrances without determining how much in goods/services had been received as of June 30.

As of February 28, 2002, eight months into the new fiscal year, DMH had expended only $2,173,000 (51%) of the $4,291,000 accrued as accounts payable at the end of FY 2000-01. The Department could not provide supporting documentation to show that the remaining $2,118,000 represented a FY 2000-01 liability. Since outstanding liabilities as of June 30 would normally be paid by September 30, we concluded that DMH had overstated its FY 2000-01 accounts payable and that this component of that overstatement was as large as $2,118,000.

In addition, we tested $1,829,000 of the $2,173,000 in payments made against the $4,291,000 accrual. We found that $676,000 (37%) were for FY 2001-02 expenditures (the goods/services were received in FY 2001-02) and should not have been charged against the accruals. In total, accruals may have been overstated by as much as $2,794,000 ($2,118,000 plus $676,000).

We also noted that, at the end of FY 2000-01, DMH did not accrue $2,770,000 in contract service provider expenditures and instead charged them against the FY 2002-03 budget and contracting authority. DMH also failed to accrue $13,519,086 for FY 1998-99, $10,362,836 for FY 1999-00, and an additional $13,136,989 for FY 2000-01.

In each instance, these expenditures were inappropriately charged against the following years' contracting authority, 1999-00, 2000-01, 2001-02, respectively. (See "Delays in Paying Contractors", Recommendation 8.)

By not accurately accounting for its payables, DMH is misstating the amount it owes at year-end. This misstates the County's financial position and distorts the fund balance available to finance the following year's budget. It can also result in errors in budget estimates and projections. Department management needs to ensure that accounts payable are established only for goods and services received on or before June 30, but not paid for until the next fiscal year and that all valid payables are accrued. DMH also needs to stop charging current year expenditures to the accruals.

Recommendations

DMH management:

4. **Ensure that accounts payable are established only for goods and services received on or before June 30.**

5. **Ensure all valid payables are accrued.**

6. **Ensure current year expenditures are not charged to the accruals.**

Delays in Paying Contractors

We also noted instances where DMH paid for prior year contract provider services with subsequent year funding. DMH ties their appropriation for provider services to the Maximum Contract Amount (MCA) included in their provider contracts, called Legal Entity Agreements. During FYs 1998-99 through 2001-02, provider services exceeded the MCA well before fiscal year end. Because internal Departmental policy precluded the use of appropriation for other Service and Supply (S&S) items to pay their providers, DMH interrupted provider payments during the last quarter of FYs 1998-2002. By the end of FY 2001-02, DMH had begun working with the Auditor-Controller, County Counsel, and the Chief Administrative Office on this problem. However, for the first three fiscal years, instead of requesting additional appropriation authority, DMH lapped expenditures, misstated the results of DMH's financial operations, and created a continual funding shortfall to pay provider services in the subsequent year. In addition, each incidence of this occurring was a form of Board-prohibited retroactive contracting. Contractors were being allowed to provide expanded services with the promise of payment without first acquiring formal Board-approved contract amendments.

A schedule of the delayed payment amounts is shown on the next page. It is based on a tabulation prepared by DMH at our request.

Delayed Payments to Contract Service Providers

Fiscal Year Payable Incurred	Amount	Fiscal Year Paid and Charged
1998-99	$13.5 million	1999-00
1999-00	$10.4 million	2000-01
2000-01	$13.1 million	2001-02
2000-01	$2.8 million	2002-03

Table 5

In addition, for Fiscal Years 1998-2001, DMH had underutilized S&S appropriation sufficient to fully pay the contract service providers and which, according to County budgetary policy, could have been used once the contracts had been amended.

DMH should have more closely monitored their actual expenditures to available MCA contracting authority and gone to the Board to have the MCAs modified. DMH should have also utilized available S&S appropriation to pay its service providers. In addition, DMH should not have used current year appropriations and contract authority to pay prior year expenditures.

Recommendations

DMH management:

7. **More closely monitor actual expenditures to available Maximum Contract Amount (MCA) and request Board approval to modify MCAs when needed.**

8. **Pay contract service providers on time.**

9. **Utilize available S&S appropriation to pay service providers.**

10. **Ensure that current year appropriations are not used to pay prior year expenditures.**

11. **Re-emphasize the importance of the Board's prohibition on retroactive contracting and cease charging prior year contract expenditures to current year contracts.**

Commitments

Commitments represent funds reserved to pay for future obligations on contracts and direct purchase orders. They differ from accounts payable in that the goods and services have been contracted for but not yet received. County Fiscal Manual Section 4.3.1 requires departments to review outstanding commitment balances and cancel those that no longer represent obligations. Each year, departments must send positive confirmations to the Department of the Auditor-Controller (A-C) that outstanding balances are proper or need to be reduced.

The Department needs to more closely monitor commitment balances. We tested six commitments established in FY 1999-00 totaling $341,650 and 24 commitments established in FY 2000-01 that were still on the books as of January 2002, totaling $1,744,464, and found that 11 (37%), valued at $251,087, were not needed and should have been canceled because final payment had been made on those items. Three of the commitments with a value of $103,471 should have been canceled prior to the end of FY 2000-01. Leaving unnecessary commitment reserves on the County's accounting records results in an understatement of the year-end fund balance available to finance the following year's budget. It also complicates budget forecasting.

To improve the accuracy of the Department's commitment reserves, management should re-instruct fiscal staff on the criteria for maintaining commitments and monitor to ensure that only necessary balances are maintained.

Recommendation

12. Department management re-instruct fiscal staff on the criteria for establishing commitments and monitor to ensure that only necessary balances are maintained.

REVENUE ACCRUALS

The County Fiscal Year-end Closing Instructions require amounts accrued at year-end as current receivables to be measurable and fully expected to be collected during the next fiscal year (FY). Revenues not expected to be received within one year after the end of the fiscal year should be classified as deferred revenue.

Revenue Accruals

Both the County Fiscal Manual (CFM) and the Auditor-Controller's Annual Closing Instructions prohibit departments from accruing revenue that will not be collected within twelve-months after the end of the fiscal year. The practice is necessary to safeguard the County's cash flow. Funds that will not be received until far into the future cannot provide cash to pay today's bills. Failure to comply with this requirement can have a serious negative effect on the County's cash position because the budget process assumes these receivables will be paid in time to provide cash to pay current bills.

Contrary to the County's requirements, at the end of FY 2001-02, DMH was planning on accruing approximately $54 million as revenue that would not be collected until FY 2003-04 or longer and similar accruals for a lesser amount had previously been accrued. These accruals were discovered because of inquiries made by the Auditor-Controller's Accounting Division and were related to the Early and Periodic Screening, Diagnostic, and Treatment Program. DMH had not previously informed the Chief Administrative Office (CAO), the Board, or Auditor-Controller of the cash flow problems of this program.

After the Auditor-Controller refused to allow the erroneous accruals, the matter was brought to the attention of the Board of Supervisors and other funds that were available were used to fund the shortfall, at least temporarily. Efforts were also initiated to improve the cash flow from the State for this program. Although still a problem, cash flow from the State was somewhat improved by pursuing a previously unknown regulatory remedy.

In order to ensure the financial solvency of the County, DMH management must ensure it complies with County revenue accounting requirements. In addition, cash flow problems should be promptly reported to the Board, CAO and Auditor-Controller. DMH management should also ensure it is aware of and pursues available regulatory remedies to improve cash flow.

Recommendations

DMH management:

13. **Ensure it complies with County revenue accounting requirements.**

14. **Ensure cash flow problems are promptly reported to the Board, CAO and Auditor-Controller.**

15. **Ensure it is aware of and pursues available regulatory remedies to improve cash flow.**

June 30, 2001 EPSDT Accrual Calculation

In addition to reviewing the issue of collectability, discussed above, we performed a detailed review of DMH's June 30, 2001 EPSDT Program accrual for the purpose of determining the accuracy of the calculation. Our analysis paralleled the methodology the State uses to determine the final amount to be paid at settlement. DMH accrued a total of $44.9 million, comprised of $8.7 million for FY 1999-2000 and $36.2 million for FY 2000-01. We found that DMH's accrual was inadequately documented and based on a formula that was not consistent with the State's formula. Using information available to DMH as of June 30, 2001, we determined that DMH's accrual of $36.2 million for FY 2000-01 transactions was understated by $8.1 million, an error of 18%. In order to ensure the accuracy of future accruals, DMH needs to compare their accrual approach against the State's methodology, eliminate inconsistencies, and fully document each element of their calculation.

Recommendation

16. **DMH compare their accrual approach against the State's methodology, eliminate inconsistencies, and fully document each element of their calculation.**

MAAR Reports

County-operated clinics are required to submit a Monthly Activity and Accounts Receivable (MAAR) report to DMH's Accounting Division. The MAAR is an aging report showing beginning accounts receivable balances, new charges added, payments, adjustments, and write-offs for self-pay patient fees. DMH records patient fees on a cash basis, includes no amount in their revenue accrual for this funding source, and apparently has no basis to know whether this revenue source is being maximized. The total revenue recorded for FY 2001-02 was relatively small at $410,913. The budgeted amount for FY 2002-03 was even less at $291,000, a 29% decline.

DMH's Accounting Division has not monitored to ensure that each clinic submits the monthly report and does not review the reports that are received. Recently, the Accounting Division prepared a schedule showing which clinics submitted the required reports for the period July 2001 through August 2002. The schedule indicated that clinics submitted only 66 (42%) of the required 156 reports for July 2001 through December 2001. Of the 26 clinics on the schedule, ten (38%) did not submit any reports during the six-month period. Clinics submitted only 27 (21%) of the required 130 reports due for the period January 2002 through May 2002. Fifteen (58%) did not submit any reports during the period. During June through August 2002, none of the clinics submitted any reports.

DMH management indicated that it relies on the clinics to manage MAARs. However, we contacted the Edmund D. Edelman Westside Mental Health Center (Edelman), one of DMH's larger County-operated clinics, and were advised that they do nothing with MAARs. We were also told that the MAARs computer software, which is intended to support MAAR activity at each clinic, has been inoperable at Edelman for an extended period of time and their computer-support staff have been unable to repair the system.

The MAAR computer software needs to be repaired at all locations where the system does not operate properly. In addition, DMH should ensure that County-operated clinics submit the MAAR reports monthly. DMH's Financial Services Bureau (FSB) should be reviewing and accounting for all MAAR reports to ensure the clinics actively pursue outstanding account balances and to refer uncollectible accounts to the Treasurer and Tax Collector. At year-end, the MAAR reports should be part of the basis for calculating revenue and receivable accruals. Unless DMH manages their receivables, DMH cannot know what the true revenue should have been and how much was lost due to inadequate collection efforts.

Recommendations

17. DMH repair the Monthly Activity and Accounts Receivable (MAAR) computer software at all locations where the system does not operate properly.

18. DMH ensure that County-operated clinics submit the MAAR reports monthly.

19. DMH's Financial Services Bureau (FSB) review and account for all MAAR reports and ensure the clinics actively pursue outstanding account balances and refer uncollectible accounts at County-operated clinics to the Treasurer and Tax Collector.

20. DMH's FSB monitor outstanding receivables by reviewing the MAAR reports.

21. DMH's FSB include an accrual amount for unpaid Patient Fees in their fiscal year-end revenue accrual.

Accounts Receivable Management

County Fiscal Manual (CFM) Section 8.1.2 states that departments must maximize revenue and deposit it into a County account at the earliest feasible point in time. CFM Section 8.1.3 states that Departments must prepare billings or fees to third parties, make collections as soon as allowable, and closely track revenue to ensure timely receipt from third parties. These objectives embody the concept of accounts receivable management, establishing the amount owed at the earliest reasonable point and timely collecting the debt.

DMH does not establish an account receivable until after the State Department of Mental Health (SDMH) has sent a notification of the State's disposition of each claim submitted and the amount to be paid. The amount established as a receivable is the initial State-approved amount. The time lapse between the provision of a reimbursable unit of service and the initiation of receivables management can be several months.

DMH needs to start establishing and managing its accounts receivable at the point it sends the billing information to the State instead of waiting for the State to determine the amount it will pay. Because the State does not have the same incentives that we do to ensure that we maximize legitimate revenues, it is likely that DMH has not always received full payment for valid billings submitted to the State and not always received payment as timely as DMH should have. Establishing and managing its accounts receivable at an earlier point would enable DMH to compare what the State pays on each claim to the amount expected to be received and follow-up immediately on any discrepancies to ensure full payment. Changing the Department's fiscal approach from one of accepting what and when the State will pay to a more aggressive approach of determining the receivable early and ensuring timely collection, should result in increased revenue flowing faster into the Department.

In addition, DMH needs to monitor the collection activities on delinquent accounts referred to the Treasurer and Tax Collector (TTC). The TTC has indicated that they can provide detailed information on collection activities and account statuses, but DMH does not ask for it. During the Cash Flow Loan Program (CFLP) Review, DMH requested a status report from the TTC for the first time and has not asked for a report since. As administrator of the CFLP, DMH needs to routinely follow through to the final disposition of seemingly uncollectable accounts to ensure that the TTC is performing the collection services required and to be able to timely determine when to post a loan write-off to CAPS.

Recommendations

22. DMH establish and manage its accounts receivable at the point it sends the billing information to the State instead of waiting for the State to determine the amount it will pay.

23. DMH monthly request a status report on delinquent Cash Flow Loan accounts receivable and monitor the Treasurer and Tax-Collector's collection activities.

PROCUREMENT

DMH spends $174 million annually for services, supplies, and fixed assets, not including contract provider and fee for service payments. In general, the Procurement Section (Procurement) of the Administrative Services Bureau (ASB) has overall responsibility for the majority of DMH's procurement functions. In that capacity, ASB Procurement is responsible for reviewing requisitions and bid information. However, DMH allows significant exceptions to this rule that enable other DMH organizational units to perform procurement functions. Financial Services Bureau (FSB) staff are responsible for reviewing the invoices for accuracy, and comparing invoices to purchase orders and receiving reports before authorizing payment. Once the documents have been matched, the FSB staff enter the payment voucher into the Countywide Accounting and Purchasing System (CAPS) to initiate payment to the vendor. Two levels of supervisors/managers are required to review the transactions online, and upon verification, approve the transactions electronically.

Oversight of Purchasing Operations

County Fiscal Manual (CFM) Section 4.1.2 requires departments to monitor expenditures to adhere to the approved budget and ensure expenditures are made in accordance with applicable laws and established County policies and procedures. In general, we found DMH's controls over procurement to be weak because DMH is not following established practices. Procurement staff are not providing the needed level of control and monitoring to ensure the Department's procurement functions are operating effectively. For example:

- DMH is not complying with the Internal Services Department's (ISD) bidding requirements and is, in large part, purchasing through sole source arrangements.

- When bids are required, the process does not always involve the required number of bids or sometimes bids with insufficient detail and integrity are accepted. We found one instance of a bid and what appeared to be two copies of the same bid put in the procurement file to satisfy a three-bid requirement.

- Purchases are sometimes split, bypassing the requirement to process transactions over $5,000 through ISD.

- Available vendor codes are not being used. In one instance, in lieu of an available vendor code, a miscellaneous code was used to generate 35 payments covering 237 procurements.

- The Department of the Auditor-Controller's Payment Voucher Suspense File is being improperly cluttered with shell payment vouchers (PV) used as templates by DMH to reduce data entry time.

- Procurements exceeding $100,000 are not always being submitted for Board of Supervisor approval.

- Vendors are not always being paid timely.

DMH management needs to monitor procurement functions to ensure compliance with established policies. In addition, DMH needs to develop current written procedures for processing payment vouchers and purchase orders that include checklists to ensure that approvers follow required procedures.

Recommendations

24. DMH management monitor procurement functions to ensure compliance with established policies.

25. DMH develop current written procedures for processing payment vouchers and purchase orders that include checklists to ensure that approvers follow required procedures.

Decentralized Procurement Functions

As indicated earlier, ASB Procurement has overall responsibility for the majority of DMH's procurement functions. The ASB's Procurement Section is responsible for reviewing requisitions and bid information. However, DMH allows significant exceptions to this rule that enable other DMH organizational units to perform procurement functions. We believe that many of the problems in this report are the result of decentralized procurement functions.

The lack of oversight by a centralized procurement unit makes it more difficult to ensure compliance with purchasing requirements. While some decentralization of procurement activities may be advantageous, to ensure that County and ISD policies are followed, ASB's Procurement Section should be responsible for performing a final review and approval of all DMH procurement transactions.

Recommendation

26. The Administrative Services Bureau's Procurement Section be responsible for performing a final review and approval of all DMH procurement transactions.

Procurements Over $100,000 Limit

California Government Code Section 25502.5 requires that service contracts exceeding $100,000 in the aggregate be approved by the Board of Supervisors (Board). In reviewing an exception report produced by ISD and other payment records related to FY 2000-01, we noted two cases where DMH's cumulative payments went over the $100,000 limit without Board approval using the same purchase order number. In one instance, an individual performed these services ($100,800) and in the other instance, a company performed the services ($185,133). DMH indicated that there were additional instances not identified by ISD and that an unsigned Memorandum of Understanding (MOU) between ISD and DMH's Directors authorized these arrangements. However, any such agreement would be contrary to the provisions of Section 25502.5 and not valid unless approved by the Board. We performed additional follow-up to acquire a copy of the MOU and were told by DMH management that they had mistakenly thought an MOU existed and that the practice of procuring services in excess of $100,000 without Board approval had now stopped.

DMH needs to monitor its contracts to ensure they do not exceed the $100,000 threshold in the aggregate without requesting Board approval. This will ensure that the Board is aware of large service contracts and has the opportunity to review and approve them.

Recommendation

27. DMH monitor its purchase order contracts to ensure they do not exceed the $100,000 threshold in the aggregate without Board approval.

Non-Agreement Vendor Purchase Orders

Non-agreement vendor POs should only be used when purchasing supplies that are not provided by agreement vendors. ISD's purchasing guidelines state that, for non-agreement purchases less than $1,500, two solicitations are encouraged and at least three price quotes should be obtained for each purchase from $1,500 to $5,000. Purchases over $5,000 should be submitted on a requisition to ISD.

If the purchase is not competitively bid, it is considered to be a sole source purchase. Sole source acquisitions are made when circumstances preclude the County from obtaining competitive bids. Generally, sole source procurements occur with the procurement of a service that can only be obtained from one provider, when a particular provider is required, or in an emergency. There is no need to solicit bids if even one of these conditions apply. According to ISD Purchasing Policy Manual (PPM), Section P-3700, sole source acquisitions must be justified in sufficient detail to explain the basis for not following the competitive procurement process. In addition, any sole source purchase over $5,000 must be approved by the County Purchasing Agent and reported to the Board of Supervisors.

We judgmentally selected 30 non-agreement vendor purchases, totaling $129,194. Twenty-seven transactions (90%), totaling $117,580, were sole sourced, including 23 with values in the $1,500 to $5,000 range and four for amounts over $5,000. Three additional purchases with values in the $1,500 to $5,000 range were put out to bid.

Our review of the 26 transactions with values in the $1,500 to $5,000 range disclosed the following:

- Twelve (46%) purchases did not contain the required three price quotes, and were sole sourced without any documented justification or evidence of ISD approval.

- Three (12%) purchases were supported with evidence of three bids. However, the files for these purchases lacked such critical details as delivery terms, freight charges, and days to deliver. According to DMH Procurement, the Department does not normally require such terms for bids.

  In addition, one of these three purchases was supported by an unsigned, winning bid and two other questionable bids. The bids are considered questionable because they have language that is identical to the winning bid except for the vendor name, the price, the hyphenation of a particular word, and the inclusion of an acceptance page for an authorized agent of the County to sign. The losing bids have the same word hyphenated and both are unsigned and undated. In addition, three months later there was a revision to the original purchase with three bids to support the procurement enhancement. The bidders were the same, the winning bidder was the same, all three bids were unsigned, and the two losing bids were once again identical to the winning bid except for the vendor name, the price, the hyphenation of the same word, the lack of a date, and there being no acceptance page.

- One purchase (4%) did not have the required bids but, according to DMH, ISD had verbally authorized it as a sole source purchase. ISD indicated that they normally do not give verbal approvals to make sole source purchases costing less than $5,000. However, ISD planned to sign an agreement with this vendor in the near future. The transaction did not have the required documentation indicating the purchase met the criteria for a sole source purchase.

- Five (19%) purchases met ISD standards for being sole sourced but the justifying documentation was not centrally filed in Procurement to facilitate management review. Instead, the documentation was filed piecemeal throughout the units involved with the five procurements.

- Five (19%) purchases met ISD standards for being sole sourced and their files contained documented justifications and evidence of ISD approval. They included an emergency toxic chemical cleanup, accommodations for an annual conference, and a membership in the Los Angeles Area Chamber of Commerce.

Our sample also included four non-agreement POs for amounts over $5,000 that should have been requisitioned through ISD, including one item for $15,790. All were sole sourced by DMH. One of the four purchases had been requested through ISD and then converted into a direct purchase by DMH when ISD's purchasing process took longer than expected. A second of the four purchases was submitted to ISD but then executed without ISD approval. DMH's file on this latter transaction does not document why ISD was ultimately bypassed. None of the transaction files contained adequate documentation regarding why DMH believed the purchases met the sole source criteria.

DMH is not complying with County purchasing procedures by utilizing sole source purchases rather than obtaining required bids. In addition, DMH is not obtaining and adequately documenting required ISD approvals for sole source contracts.

Because DMH is not complying with ISD Bulletin No. 802, Department Instructions for Non-agreement Various Vendors Blanket Purchase Order, and ISD PPM, Section P-3700, it is not ensuring it is receiving the best possible prices. DMH management should ensure full compliance with the three-bid minimum requirement for purchases costing from $1,500 to $5,000 and process purchases over $5,000 through ISD as required. In addition, DMH management should ensure Procurement staff obtain the required price quotes and that all relevant quote solicitation information is documented. Bids on procurements of material value should be signed by the bidder. DMH needs to maintain detailed records justifying the basis for sole source procurements and ISD telephonic approvals need to be followed by written confirmations from ISD.

Recommendations

DMH management ensure:

28. Non-Agreement purchases costing from $1,500 to $5,000 comply with the requirement for three bids and purchases over $5,000 are processed through the Internal Services Department.

29. Procurement staff obtain required price quotes and document all relevant quote solicitation and Internal Services Department approval notifications.

30. DMH require bids on procurements of material value to be signed and dated by the bidder.

31. Procurement staff comply with County and Internal Services Department policy regarding sole source purchases and maintain detailed records justifying the basis for sole source procurements.

Use of Vendor Codes

CAPS maintains a Vendor Table (VEND) containing over 25,000 records. Information on the VEND includes the vendors' name, vendor code, address, and total current and prior year payments. CFM Section 4.3.6, requires that vendor codes be used to the fullest extent possible when processing vendor payments. The use of vendor codes reduces online data entry time, enables the ability to retrieve historical vendor payment data, enables edits for duplicate invoice payments, provides automated year-end 1099 reporting to the Internal Revenue Service, automates the Community Business Enterprises activity, and provides summary reporting on Countywide purchasing activity. If a vendor code has not been assigned to a vendor, departments must use the general code of "MISC 01" to process a payment. Use of MISC 01 prevents departments from achieving the benefits that accrue from use of the Vendor Table. Generally, departments should only use the miscellaneous vendor code for non-recurring payments.

We reviewed 29,779 vendor procurements and determined that payments for 4,630 (16%) involved use of the miscellaneous vendor code. Two hundred thirty-seven (237) of the 4,630 transactions involved purchases from one vendor that were paid with 35 warrants, each time using the miscellaneous code. Other single vendor multiple purchase examples include instances of 87 procurements paid with 25 warrants, 75 procurements paid with 75 warrants, and 38 procurements paid with 30 warrants. These four payees had vendor codes available on CAPS that could have been used. DMH management should re-emphasize to DMH Accounting Division staff the need to use vendor codes and should monitor staff to ensure compliance. In addition, CFM, Section 4.3.6, requires departments to submit a CAPS Vendor Table Update Request form to the Auditor-Controller (A-C) when a vendor does not have a vendor code and there have been multiple purchases from that vendor.

Recommendations

32. DMH management re-emphasize to Accounting Division staff the need to use vendor codes and monitor staff to ensure compliance.

33. DMH submit a CAPS Vendor Table Update Request form when a vendor does not have a vendor code and there have been multiple purchases from that vendor.

Vendor Table Updates

CFM Section 4.3.4 lists the minimum internal controls required when departments want to directly update the Vendor Table. Included is a requirement that individuals authorized by departments to add vendors to the Vendor Table should not be authorized to input or approve payment voucher (PV) and/or purchase order (PO) transactions.

DMH staff authorized to request changes to the CAPS Vendor Table also enter or approve CAPS payment voucher and/or purchase order transactions. As a result, the potential for inappropriate payments to unauthorized vendors is increased.

Recommendations

34. DMH request the Auditor-Controller to cancel the Vendor Table update authorizations of individuals authorized to perform payment voucher and/or purchase order transactions.

Status: Effective February, 2003, DMH transferred responsibility for approving changes to the Vendor Table to a manager that has no payment voucher approval capability. However, at least one individual still has both Vendor Table update and payment voucher approval authorization.

Suspense File Transactions

CAPS maintains a suspense file of transactions entered into the system that have not obtained all the required approvals or that have not passed all the required computer edits. Suspense file transactions should be cleared timely. We reviewed DMH's suspense file and identified 215 (65%) out of 329 transactions had been in suspense for more than 45 days. One hundred ninety (190) were identified by DMH as "shell payment vouchers (PV)".

According to DMH, a shell PV is a template record that DMH has input into CAPS suspense to reduce data entry time and input errors. The shell includes vendor specific information and there is a shell PV for each of DMH's important vendors. To generate a PV, staff locate the shell for the vendor being paid, input the missing information, generate a PV for the vendor but then allow the template to continue to exist as a suspense file record. Also, according to DMH, when the shell PV processes, it carries a vendor code to ensure the County can include the transaction in the historical data it tracks for each vendor. DMH management has also informed us that the current list of shell PVs in suspense includes stale records that should no longer be used and need to be deleted. The 215 transactions exceeding 45 days old also included 25 non-shell PVs.

While there may be some advantages to DMH using shell PVs, a suspense file is not intended to be a database for vendor templates. Using it for that purpose clutters the file and undermines controls intended to ensure the file is cleared timely. In addition, not clearing the suspense items can result in untimely payments to vendors and increases the potential for erroneous payments. Therefore, DMH should contact the A-C's CAPS Control Section to determine if there is an alternative to using the CAPS suspense file as a template database. DMH should also perform documented reviews of the CAPS suspense file at least twice each month and ensure transactions in suspense are resolved timely.

Recommendations

35. DMH contact the Department of the Auditor-Controller's CAPS Control Section to determine if there is an alternative to using the CAPS suspense file as a template database.

36. DMH perform documented reviews of the CAPS suspense file at least twice each month and timely resolve suspense file transactions.

Timeliness of Payments

County guidelines need to be consistently followed to ensure that vendors are paid timely and cash flows are properly managed. CFM Section 4.3.7 requires departments to pay vendors within 30 days of receiving the vendor's invoice.

We obtained a DMH Procurement Transaction Aging Report (Aging Report) that included transactions for FY 2001-02 as of March 2002. The Aging Report contained three transactions between 91 to 125 days old, five items between 61 to 90 days old, and 59 transactions between 31 to 60 days old. It appears a relatively large portion of these transactions were not processed timely because field locations had not forwarded receiving reports to the Accounts Payable Section. DMH needs to ensure that vendors are paid timely but close to the due date to properly manage cash flows. To facilitate this, DMH needs to follow up on exception items shown on their Aging Report and document reasons for failure to pay vendors within 30 days of receiving the vendor's invoice. DMH should periodically analyze the reasons for non-timely payment and modify payment procedures, as appropriate. In addition, DMH should modify the spreadsheet on which the Aging Report is based to enable recording detailed information regarding attempts to clear outstanding items, such as the date and status of the last inquiry to the purchaser or vendor and data on attempts to get receiving reports from the field. This additional information should also be included in the Aging Report.

Recommendations

37. DMH management ensure that payments are made to vendors within 30 days of receiving invoices.

38. DMH follow up on exception items shown on the Procurement Transaction Aging Report and document reasons for failure to pay vendors within 30 days of receiving the vendor's invoice.

39. DMH periodically analyze the reasons for non-timely payment shown on the Procurement Transaction Aging Report and modify payment procedures, as appropriate.

40. DMH management determine why receiving reports are not processed timely.

41. DMH modify the spreadsheet on which the Procurement Transaction Aging Report is based to enable recording detailed information regarding attempts to clear outstanding items. This information be included in the Aging Report.

Splitting Purchases

We identified five purchases of interpreter services and six purchases of audio visual equipment that appeared to have been split and, therefore, the requirement to process transactions over $5,000 through ISD was bypassed. For example, audio visual purchases with individual costs of less than $5,000 were split into four separate transactions. The purchases occurred on the same day with consecutive PO numbers. In total, the eleven transactions should have been combined into three purchases. The combined transactions should have ranged from $5,988 to $14,925. County guidelines specifically prohibit order splitting.

Recommendation

42. DMH monitor to ensure Procurement does not split purchase orders, as prohibited by CFM Section 4.3.1.

Agreement Vendor Purchase Orders

ISD's Purchase Standard 988-6, Department Instructions for Agreement Various Vendors Blanket Purchase Order, discusses policies and procedures for using agreement vendors. The guidelines, at Paragraph 1, specifically state that departments using agreement vendors are responsible for verifying the accuracy of invoices against the agreement terms before processing Sub-Order/Report of Goods Received (RGR) to the Auditor-Controller.

We judgmentally selected 15 agreement vendor purchases for review and noted that fifteen (100%) purchases had no evidence of review or verification conducted to confirm the invoice price to agreement price. DMH needs to ensure that individuals authorizing payment document that they have verified the correct amount to be paid.

Recommendation

43. DMH management ensure that individuals authorizing payment document that they have verified the correct amount to be paid.

TRUST FUNDS

Trust funds are used to account for monies held by the County as trustee, custodian or agent for other parties or for donations for specific purposes. Government Code Section 24351 requires each officer of a county or judicial district to deposit with the County Treasurer all trust money coming into his/her possession. County Fiscal Manual (CFM) Chapter 2 defines the minimal controls and required procedures for trust deposits, disbursements, and reconciliations and special rules for donation and revolving cash trust funds. Trust funds must also be controlled and used in compliance with the authority and purpose of the fund. During April 2000, the Department of the Auditor-Controller (A-C) issued a Trust Fund Fiscal Operations (Trust) Review of DMH's trust funds.

Separation of Duties

DMH is not complying with CFM Section 2.1.3 that requires separation of duties in the trust accounting function. For example, the same employee prepares trust requisitions and reconciles the requisitions to the “Paid Requisitions Report”. CFM Section 2.1.3 specifically requires these duties to be separated. In addition, DMH did not identify this as a control weakness in its FY 2000-01 ICCP review.

As a result, separation of duties is not as strong as it should be. DMH needs to better separate duties by having a different employee prepare the trust requisitions than the employee that reconciles the requisitions to the “Paid Requisitions Report”. DMH also needs to determine why this condition was not reported as an ICCP weakness and make appropriate corrections to their control review process.

Recommendations

44. DMH have a different employee prepare the trust requisitions than the employee who reconciles the requisitions to the "Paid Requisitions Report".

45. DMH determine why this separation of duties deficiency was not reported as a FY 2000-01 ICCP weakness and make appropriate corrections to their control review process.

Liquidation of Trust Funds

According to CFM Section 2.1.2, as a trustee/agent of the trust funds, the County is required to:

- Maintain proper accounting, reporting, and security over all funds held in trust for individuals, private organizations, other governmental units, and/or other funds.

- Establish safeguards to ensure funds are used only as intended.

DMH established the Care for Conservatees Trust in 1993 under an order of the Superior Court in Los Angeles. The opening balance of the trust was approximately $600,000. The trust purpose was to hold funds for the cost of care in a State hospital paid on behalf of conservatees by the Public Guardian to DMH. The court ordered that "all monies for cost of State hospital care ... are ordered to be held in trust pending the determination as to whether those funds are payable to the State of California."

DMH, in a memo dated May 1, 2000, requested that the Office of the County Counsel (CC) provide a legal opinion on the appropriateness of a transfer of funds from trust into the County General Fund (CGF). When the CC failed to respond, DMH made a series of transfers from the trust into the CGF, totaling $842,653. The Department does not have documentation to justify the taking of these funds.

DMH needs to follow up with the CC to determine the validity of the Care for Conservatees transfers and, if found to be inappropriate, transfer the funds back into the trust. In addition, DMH needs to determine if the remaining balance in the Care for Conservatees Trust is payable to the State.

Recommendations

46. DMH follow up with County Counsel to determine the validity of the Care for Conservatees transfers and, if found to be inappropriate, transfer the funds back into the trust.

47. DMH determine if the balance in the Care for Conservatees Trust is payable to the State.

PAYROLL AND PERSONNEL

The Countywide Timekeeping and Payroll Personnel System (CWTAPPS) allows departments to process personnel actions (e.g., hires, changes in employee status, terminations, etc.) on-line. It also maintains a variety of employee data (e.g., birth dates, hire dates, social security numbers, etc.) and employee work histories. CWTAPPS also automates the leave record including leave balances and the disposition of year-end leave balances.

In June 1999, we completed a DMH Payroll, Personnel, and Travel Operations (Payroll and Travel) Review. The review included DMH's use of CWTAPPS and contained 22 recommendations, covering areas such as terminations, bonuses, time and attendance, leave accounting, industrial accidents, travel, and data security. In April 2001, we conducted a follow-up review to assess the Department's progress in implementing the 22 recommendations. We found that DMH had not implemented eight recommendations (36%). As part of this fiscal review, we reviewed the status of the eight outstanding recommendations. We found that three related to payroll and personnel still have not been implemented. One additional unimplemented recommendation is discussed later in the Travel Expenses Section of this report.

Out-of-Class Bonuses

Prior Recommendation 4 from the 1999 Payroll and Travel Review indicated that DMH management should ensure that all out-of-class bonuses are recalculated each time the employees receiving these bonuses have a change in salary.

We sampled all four employees whose bonuses need to be recalculated each time they have a salary change. DMH did not recalculate any of the bonuses. As a result, two employees were underpaid a total of $331 and two employees were overpaid a total of $496. DMH needs to implement Recommendation 4.

Recommendation

48. DMH management ensure that all out-of-class bonuses are recalculated each time the employees receiving these bonuses have a change in salary.

Processing Centers

Processing centers can be established on CWTAPPS to limit access to payroll and personnel information. According to County Fiscal Manual (CFM) Section 3.1.5, processing centers should be utilized so that payroll and personnel staff do not have access to their own personnel and payroll information on CWTAPPS.

Prior Recommendation 15 from the 1999 Payroll and Travel Review indicated that DMH management should ensure that processing centers are utilized so that payroll and personnel staff do not have access to their own personnel and payroll information on CWTAPPS.

DMH has increased the number of processing centers from one to seven. However, we found that 10 (50%) of the 20 Human Resources Bureau (HRB) employees have the ability to change their own personnel/payroll information on CWTAPPS.

Recommendation

49. DMH management ensure that processing centers are utilized so that payroll and personnel staff do not have access to their own personnel and payroll information on CWTAPPS.

CWTAPPS Reports

Prior recommendation 17 indicated that DMH management should utilize CWTAPPS reports to monitor the Department's payroll operations and ensure the Payroll Supervisor reviews the CWTAPPS reports as required by the CFM.

Chapter 3 of the CFM requires departments to investigate exceptions on several payroll exception reports and process any necessary adjustments. Reviewing these reports helps ensure accurate payments to employees. We selected a sample of 20 exception reports (seven different exception reports for various pay periods) and found that only one (5%) had evidence that it had been reviewed.

Recommendation

50. DMH management utilize CWTAPPS reports to monitor the Department's payroll operations and ensure the Payroll Supervisor reviews the CWTAPPS reports as required by the County Fiscal Manual.

CASH HANDLING

DMH maintains 23 petty cash funds in its County-operated clinics to pay for miscellaneous expenditures. In addition, 28 County-operated clinics normally have balances of cash and checks received from self-pay consumers. Cash and check collections totaled $426,384 and $454,204 during FYs 2000-01 and 2001-02, respectively. Normally there are balances of cash and checks received, but not yet deposited.

In addition to interviewing management at DMH Headquarters and evaluating their cash handling procedures, we performed surprise cash audits of two County-operated clinics with relatively large annual cash receipts, Edmund D. Edelman Westside Mental Health Center (Edelman) and Long Beach Adult Outpatient Program (Long Beach).

Timely Deposits

DMH has written policies and procedures governing cash handling dated October 1, 1989, which require bank deposits to be made on a daily basis when collections total $100. Regardless of the amount collected, deposits must still be made no less often than weekly. County Fiscal Manual (CFM) Section 1.3.7.1 states that collections of less than $500 per day may be held and deposited when the total reaches $500, provided that deposits are made at least weekly. We found that payments received at Long Beach were not always being deposited weekly or when the balance reached $500. For example, one of the receipt logs contained $266 in items that were not listed in chronological sequence and were as much as two weeks old. Another log listed receipts totaling over one thousand dollars awaiting deposit. The result is increased risk of loss. DMH needs to re-evaluate their internal cash handling policy and either follow it or revise it to meet Departmental needs, within the constraints of the CFM. DMH also needs to ensure that their cash handling policy is being followed at all County-operated clinics.

Recommendations

51. DMH re-evaluate the Departmental cash handling policies and procedures and either implement them or, within the constraints of the County Fiscal Manual, revise them to meet current Departmental needs.

52. DMH ensure that the deposit policy is being followed at all County-operated clinics.

Mail Receipts

Per CFM Section 1.3.6, where there is a large volume of checks received by mail, two employees should be assigned to open the mail and record receipts. The assigned employees should open and sort the mail; prepare a listing of checks received; and cross-reference each check with the supporting documents (e.g., case file, patient record, etc.). Because of a lack of familiarity with the rule and why it is important, neither Edelman nor Long Beach required two individuals to open the mail and record receipts. As a result, the opportunity for checks and cash received to become lost or misappropriated is increased. DMH needs to ensure that all County-operated clinics require two employees to open the mail and record receipts.

Recommendation

53. DMH ensure that all County-operated clinics require two employees to open the mail and record receipts.

Cash Records

CFM Section 1.1.3 states that procedures and controls must be established to ensure that timely, accurate, and complete records are maintained of all cash transactions. Our review of cash records at Long Beach and Edelman revealed the following deficiencies:

- Long Beach was using a receipt book with receipt numbers that were not in sequence with the previous book and the book had not been signed for.

- Edelman did not reconcile payments received to client billing files to ensure proper update of accounts receivable records.

DMH needs to ensure all County-operated clinics reconcile payments received to client billing files and receipt books need to be properly signed out and used in sequence.

Recommendation

54. DMH ensure all County-operated clinics reconcile payments received to client billing files and sign out receipt books and use them in sequence.

Assignment of Responsibility

A fundamental internal control requirement is that responsibilities must be clearly assigned. No organizational chart or formal duty assignments existed in either Edelman or Long Beach that identified assignment of cash handling responsibilities. Without the assignment of responsibility, the likelihood of a control being effectively implemented is diminished. DMH needs to formally assign responsibilities for cash handling and compliance with DMH and CFM policies and procedures at all Departmental locations, including Headquarters, Edelman, and Long Beach.

Recommendation

55. DMH formally assign responsibilities for cash handling and compliance with DMH and County Fiscal Manual policies and procedures at all Departmental locations, including Headquarters, Edelman, and Long Beach.

Counting Cash

We noted that cash is not counted and reconciled at the end of the work shift by two individuals. This procedure helps to ensure that cash problems are brought timely to management's attention. Without such a procedure, a theft is less likely to be discovered quickly so that prompt action can be taken. DMH does not follow this practice. The Department would benefit from incorporating into their cash handling policies and procedures a requirement that, at the end of the day, all cash and cash equivalent safekeeping locations be counted and reconciled by two people.

Recommendation

56. DMH require that at the end of the day, all cash and cash equivalent safekeeping locations be counted and reconciled by two people.

GRANTS

A grant is an award of funds from a governmental unit or private entity. The award is usually made in response to an application for a specified project, but can occasionally be made for general purposes.

Policies and Procedures

DMH does not comply in all respects with the standards of County Fiscal Manual (CFM), Section 8.2.2, which requires departments to establish appropriate procedures and controls to ensure the following:

- Grant revenue is maximized.
- Grant funds are received timely.
- Grant funds and interest earned on such funds are appropriately accounted for.
- Grant accounting records are appropriately reconciled.
- Overhead is computed per grantor guidelines and recovered to the maximum extent allowable.

DMH has been managing its grants function since January 2002 with a draft policy that needs to be fully developed to comply with the standards of CFM Section 8.2.2 and formally adopted.

Recommendation

57. DMH adopt a formal, written policy on grant management that complies with the standards of County Fiscal Manual Section 8.2.2.

SAMHSA Roll Forward

DMH did not satisfy all the requirements to earn $309,021 of its FY 1999-2000, $1,230,371 of its FY 2000-01, and $2,204,030 of its FY 2001-02 Substance Abuse Mental Health Services Administration (SAMHSA) Block Grant funds. DMH's SAMHSA total grant for each of these years was $11,611,401, $13,240,440, and $15,033,907, respectively. According to DMH, the SAMHSA requirements were not fully met in FY 1999-2000 because the funds did not become available until late in the FY, too late to implement an aggressive spending program. For subsequent years, DMH and its providers receiving SAMHSA funds did not maximize funded expenditures for a variety of reasons. For example, for FY 2001-02, the Crisis Drop-In and Emergency Shelter Program received a $742,000 allocation of SAMHSA funds but was only able to expend $359,092. According to DMH management, this occurred, in significant part, because of problems in renovating a facility necessary to treat clients. In another instance, $1,162,873 million was allocated for Dual Diagnosis Set Aside Services but only $472,434 was spent. DMH advised that SAMHSA was not the primary funding source and was not billed first. Total reimbursable units of service were insufficient to absorb all available primary and secondary funding. Also according to DMH, there may have been a perceived stigma associated with diagnosing a client as a substance abuser and/or an impression that categorizing a case as SAMSHA-eligible diminishes options available to utilize non-SAMHSA funding. DMH management indicated they are attempting to deal with both these issues through its training programs.

DMH is rolling forward unused funds and budgeting them for use in the next fiscal year. According to State DMH management, typically roll-forward funding has to be fully utilized within three months of the follow-on fiscal year to stay within federal limitations regarding how long SAMHSA funding can be retained. In the future, DMH should identify the reasons available grant funds were not quickly utilized so that any necessary corrective actions can be taken to ensure SAMSHA funds are timely spent.

Recommendation

58. DMH identify the reasons available grant funds are not quickly utilized so that any necessary corrective actions can be taken to ensure SAMSHA funds are timely spent.

Grant Receivables Management

CFM Section 8.2.2 requires departments to establish appropriate procedures and controls to ensure grant funds are received timely. We tested 15 claims for timeliness and found that six (40%) were not timely. We used the SAMHSA standard for timeliness of 20 days for all the test cases because the other programs had no standards. The slippage ranged from 38 days to never being filed, despite a year having elapsed since the end of the covered period.

In addition, DMH did not follow up on unpaid reimbursement requests made during June 2001 for $9,411 of a Housing and Urban Development (HUD) Connections grant and for $18,618 of a HUD Positive Steps grant. As of April 2002, these funds had still not been received.

Recommendations

59. DMH implement procedures and controls to ensure grant funds are received timely.

60. DMH follow up on the June 2001 HUD reimbursement requests and ensure payment has been received.

Grant Inventory

DMH does not maintain an inventory listing of their grants and, when asked, had difficulty developing a list. There was confusion within DMH as to what a grant was. An accurate grant inventory, including significant deadlines that the Department must meet, the purpose(s) of the grants, and legal documents related to the grant award, is essential for the management of grant programs and for accurately budgeting expected revenue inflows.

Recommendation

61. DMH maintain an inventory of all grants with supporting information and documents, including significant deadlines that the Department must meet, the purpose(s) of the grants, and legal documents related to the grant award.

Maximizing Grant Opportunities

DMH relies on the Department's inclusion on several lists of potential grantees to notify as a means of becoming aware of new grant offerings. This passive approach to finding grants is not the proactive approach required by CFM Section 8.2.2. This Section advises departments that all potential grant sources must be continually explored to ensure maximum grant funding of County operated programs. DMH needs to be seeking out new grant revenue opportunities, not waiting to be told of them.

Recommendation

62. DMH establish appropriate procedures and controls to ensure all potential grant sources are continually explored to ensure maximum grant funding of County operated programs.

Grant Management Computer Support

DMH grant reimbursement claims are based largely on the thousands of billing records compiled each month by the Department's Management Information System (MIS). County operated clinics and contract providers enter the underlying service delivery data for each billing record. Unfortunately, the MIS has input, processing, and output control problems. For example, the System has a history of not timely processing service delivery data, resulting in the need to monitor for dead records that seemingly should have been processed out of the System as billings, but were not. The System will also, in certain instances, continue to bill for an inpatient consumer that has been discharged. In addition, the Department does not know what a substantial amount of the internal code of the System does, making modification and improvement risky.

The Department initiated an effort to replace its MIS but felt compelled to suspend the project indefinitely because of a lack of resources for such a major commitment. Subsequently, DMH began the implementation of a computer system to assist the Department in complying with the Health Insurance Portability and Accountability Act (HIPAA). According to DMH management, it may be possible to enhance the HIPAA/Integrated System to provide functionalities that the current MIS does not provide. If so, grant management capability should be considered for inclusion in the new Integrated System and as a requirement of any replacement for the MIS, should the replacement project be re-started.

Recommendation

63. DMH consider grant management capability for inclusion in the new Integrated System and as a requirement of any replacement for the MIS, should the replacement project be re-started.

CONTRACTING

Most of the Department's contracts are administered by the Contracts Development and Administration (Contracts) Division and established for three-year terms with options to renew for an additional two years. These options are almost always exercised. At the end of the five-year cycle, the contracts are usually renewed with the same organization on a non-competitive basis. DMH occasionally requests competitive bids for services when funding is received for new grant programs.

We reviewed the Department's processes for awarding contracts and noted several areas where enhancements can be made. Details are discussed below.

Competitive Bidding

The Department needs to establish policies and procedures to periodically award more mental health service contracts on a competitive basis. Only three of the 108 service provider contracts administered during FY 2001-02 had been awarded through competitive bids. According to DMH's Contracts Division some of these providers have held their contracts for more than 20 years without re-bidding.

Department managers told us contracts are generally not awarded competitively because they believe competitive bidding will require significant additional staff time. In addition, the Department told us they have concerns regarding the upheaval of existing patients if new contractors are selected to provide services.

We concur that competitive bidding could be more costly than the Department's current renewal procedures since additional staff time will be required to develop Request for Proposals (RFP) and evaluate proposals. In addition, we understand that patient welfare must be considered as part of any contractor selection process. However, the

Department and its consumers could realize substantial long-term benefits from awarding more contracts competitively. These benefits could more than offset the costs from additional staff time. Benefits of competition could include:

- The elimination or reduction of the de facto monopoly status of some providers and the associated leverage this status gives the providers in negotiations with DMH. A more competitive environment would provide increased incentives for existing providers to improve service delivery and reduce costs.

- The addition of new providers into the County's mental health system. Monopolies by definition are exclusive. A competitive environment would encourage the interest of new providers and increase the opportunity for innovative methods of service delivery to be explored and developed.

- An increase in the pool of experienced providers from which the County can choose to contract.

It should also be noted that County Code Section 2.121.320 states that contracts shall be awarded by competitive sealed bidding unless determined not practicable, normally a difficult exception to meet. Section 2.104.190 states that competitive bidding is the preferred method by which departments should procure services.

Without sufficient competition, the Department cannot ensure it is getting the best services and prices available. DMH needs to develop procedures to periodically award and renew contracts for mental health services through a competitive bidding process and establish a goal to annually increase the number of contracts awarded competitively.

Recommendation

64. DMH develop procedures to periodically award and renew contracts for mental health services through a competitive bidding process and establish a goal to annually increase the number of contracts awarded competitively.

Proposition A

Proposition A amended the County charter to permit outside contracting, through competitive bidding, for performance of any County service or activity now being performed or capable of being performed by County Employees. Proposition A also applies where services could be performed in-house through recruitment of additional County personnel. After soliciting and evaluating bids, the contracting department must determine whether to award a contract. Any award of new contracts must be based on a finding of cost-effectiveness that has been reviewed by the Department of the Auditor-Controller (A-C).

We noted that DMH has over 100 contracts with private providers that appear to have the characteristics of Proposition A contracts. However, DMH treats them as sole source procurements. The following characteristics favor the imposition of Proposition A competitive bidding and cost review requirements:

- The contracts are for the provision of mental health services. DMH directly operates many facilities that provide mental health care.

- In those instances where the contract may be for the provision of a type of mental health service not currently provided by DMH or for service delivery in a location not now served by a DMH directly-operated provider, additional County personnel could be recruited and, if necessary, additional facilities could be leased.

- Typically, these are multiple-year contracts allowing ample time for DMH to acquire the needed staff and facility space by the end of the existing contract.

DMH Contracts management indicated that they are uncertain why these contracts do not fall within the requirements of Proposition A. Some believe that it is because many of these vendors had a relationship with the County before the passage of Proposition A. DMH needs to request a County Counsel (CC) opinion on this issue.

Recommendation

65. DMH request a County Counsel opinion as to whether DMH's mental health service provider contracts are Proposition A contracts.

Bid Evaluation and Selection

During this fiscal review, we selected the one available contract award involving competition to evaluate DMH's bid and selection procedures.

The amount of the contract for FY 2001-02 was $15.8 million, including $14.2 million of what DMH considers non-Proposition A services and $1.6 million for Proposition A services. Because the agreement is for three years with two one-year renewals, the total value of the contract was $79 million. There were four bidders for the contract. Two were eliminated outright because of significant problems with bid format or content. The remaining two were given overall scores of 762.5 and 864, respectively, on a 1,000-point scale. Both are established mental health care providers with substantial experience in Los Angeles County.

The bid evaluation process was problematic in the following ways:

- County policy for Proposition A contracts requires that the cost factor should not be weighted less than any other category. DMH assigned the highest evaluation category, "Statement of Work", a maximum possible score of 400. Cost was limited to a maximum of 200 points.

- The difference between the high and low scores for the Statement of Work category for one bidder was 109 points or 27% of the maximum allowed (109 as a percentage of 400). There is no documentation as to how the evaluation committee addressed this discrepancy.

- One of the evaluators awarded 15 points to the winning bidder for a criterion with maximum points allowed of 10.

- The same evaluator added 30 points to the winning bidder's overall score for the Statement of Work category and 20 points to the overall score for another major category without explanation.

During bid evaluations, DMH needs to ensure the cost factor is not weighted less than any other category. Material differences between the high and low scores on evaluation instruments should be either resolved or accompanied by explanations. Points awarded for a criterion should not exceed the maximum points allowed for that criterion. Where a category is broken into criteria, points should be awarded at the criteria level first and totaled to arrive at the overall score for the category. Points added in significant amounts at the criteria or category levels should be explained.

Recommendations

66. DMH develop bid evaluation policies and procedures that ensure:

A. The cost factor is not weighted less than any other category.

B. Material differences between the high and low scores are either resolved or accompanied by explanations.

C. Points awarded for a criterion do not exceed the maximum points allowed for that criterion.

D. Where a category is broken into criteria, points are awarded at the criteria level first and totaled to arrive at the overall score for the category.

E. Points added in significant amounts at the criteria or category levels are explained.

Cost-Effectiveness of County-Operated Clinics

As part of the process of having the A-C review their three Proposition A contracts, DMH prepared service provision models of the DMH staffing that would be needed to deliver the same type and level of service in house. We found the models to be generally consistent with the DMH's staffing philosophy for their 58 County-operated clinics. When we compared DMH's models against the bid proposals, we found significant differences in staffing levels used to accomplish the same type and amount of work. The models employed staff at higher levels and at greater costs than contract providers. DMH management's explanation was that contract providers typically have more options to use lower level, but still fully capable staff, because of reduced union involvement.

DMH management indicated that the utilization of particular licensure categories with the County-operated clinics has led to periodic interventions and/or pressure from the unions representing these categories to ensure that there is no reduction in the numbers of positions allocated for their represented employees and no reassignment of their duties to other job classifications. This is perceived by the unions as a lowering of the standard of care provided by the Department. An example of this is the Department's efforts, within recent years, to gain support for hiring Marriage and Family Therapists into Psychiatric Social Worker (PSW) positions that currently require registration or licensure as a Clinical Social Worker (LCSW). This effort was motivated by the Department's inability to recruit sufficient LCSWs to fill its PSW vacancies, which management believed was significantly impacting service delivery. However, the union representing PSWs took an adamant position against any encroachment on the number of positions allocated for PSWs, effectively blocking this proposed remedy. Without union involvement, contractors are free to distribute functions among lower levels of employees.

We recognize that DMH has been trying for years to more efficiently staff its County-operated clinics but they need to make this a higher priority and broaden the scope of their efforts to include other than PSW positions. By selecting additional staffing categories for substitution into higher paying positions and by working with the unions and County negotiators, DMH should be able improve its success rate and achieve more of the staffing flexibility and efficiencies of the Department's contract service providers. DMH also needs to develop "best practice" models for comparison to current operations in the existing 58 County-operated clinics and make operational changes to implement the models.

Recommendations

67. DMH make cost-effective staffing of its County-operated clinics a higher priority.

68. DMH select additional staffing categories for substitution into higher paying positions and work with the unions and County negotiators to achieve greater staffing flexibility and efficiencies.

69. DMH develop "best practice" models for comparison to current operations in the existing 58 County-operated clinics and make operational changes to implement the models.

Legal Entity Agreement

DMH's provider contracts are all based on a document called the Legal Entity Agreement (LEA/Agreement). The LEA is at the core of the relationship DMH has with each of its 108 contractors. The term "legal entity" refers to the legal organization structure (proprietorship, partnership, corporation) under California law. Most legal entities doing business with DMH are not-for-profit corporations. The LEA has existed for over a decade and been modified into its current form. In large part, because of the LEA's connection to Cash Flow Loans/Advances (CFL/CFA) and to the A-C's October 2001 CFL Review, County Counsel reviewed the form and substance of the LEA and indicated an intent to completely re-write the Agreement at some future point to minimize its ambiguities, inconsistencies, and complexity. Although piecemeal changes are being made, primarily in response to complaints by contract providers, the needed complete re-write is still in progress.

We reviewed the Agreement, focusing on its ability to motivate providers to do a better job at compliance with contract provisions. For example, some providers' lack of diligence in reviewing and clearing Management Information System (MIS) monitoring and exception reports contributes to an over billing problem that results in approximately $1.2 million in overpayments annually. The providers' contracts clearly require them to submit accurate billing information but the typical contract is less clear regarding the need to show due diligence in monitoring MIS reports and clearing exceptions. One means of encouraging providers to improve is through the use of contract penalty clauses. The LEA already has penalty clauses but they tend to be all or nothing provisions involving debarment or termination of the contract.

DMH and County Counsel need to expedite the re-write of the LEA and include penalty provisions that provide Departmental management greater capability to encourage compliance with fiscal and program controls established by DMH.

Recommendation

70. DMH and County Counsel expedite the re-write of the Legal Entity Agreement and include penalty provisions that provide Departmental management greater capability to encourage compliance with contract provisions.

Contractor Monitoring

On April 24, 2003, the Auditor-Controller issued a report on the contract monitoring process in the County Social Services departments, including the Mental Health Department. That report cited various problems with DMH's contract monitoring, including frequency, verification of corrective actions, and thoroughness.

The report recommends a County-wide solution to improving contract monitoring by establishing a centralized contract monitoring function under the direction of the Auditor-Controller. Pending Board action on that recommendation, we have not made recommendations at this time regarding DMH's contract monitoring.

Living Wage Ordinance

On June 22, 1999, the Board of Supervisors adopted the Living Wage Ordinance (LWO), which established requirements for contractors and subcontractors that conduct business with the County to pay their employees a minimum wage. The LWO applies to Proposition A and cafeteria services contracts.

According to DMH management, the Department does no contracting for the performance of any County service or activity now being performed or capable of being performed by County employees other than in the context of mental health service contract providers. The Department recognizes only one of these providers as subject to LWO requirements and does not monitor this provider. In addition, there are potentially other contracts subject to the LWO because of the Proposition A issue discussed earlier. It is Board policy that all County departments monitor for compliance with the Living Wage Ordinance (see also Recommendation 65). This includes monitoring LWO-covered contracts not directly related to the provision of mental health services.

Recommendation

71. DMH monitor every contract covered by the Living Wage Ordinance for compliance with Ordinance provisions.

Contractor Database

During January 2000, the Board of Supervisors adopted the Contractor Non-Responsibility and Debarment Ordinance. This was in response to a Board finding that, in order to promote integrity in the County's contracting processes and to protect the public interest, the County's policy shall be to conduct business only with responsible contractors. Departments are responsible for monitoring contractor performance and compliance with all contract terms, consistent with County Code 2.202 et seq. The County implementation plan for this Ordinance requires at least an annual evaluation of contractor performance. Departments are responsible for entering specific performance information into the Contractor Database for all existing and prospective Proposition A/Living Wage, information technology, and construction contracts. The goal is to provide a resource to use as an evaluation tool for County departments that are considering conducting business with the contractors in the database.

DMH does not update the database to reflect performance or violations by their contractors. According to DMH management, due to the unique nature of their contracts, they have no responsibility to update the database. However, page 6 of the

Implementation Instructions clearly states that all County departments are responsible for timely and accurate input into the Contractor Database and for taking remedial action with respect to contractor performance problems. There is no exemption for unique contracts.

Recommendation

72. DMH update the County's Contractor Database to reflect violations of contract provisions by contractors with whom they conduct business.

Questioned Costs

DMH has contracted with a public accounting firm to review the operations of County-operated clinics and contract providers. One of the review procedures is to examine the billings for services provided and identify discrepancies. These discrepancies, mostly over-billings to the County General Fund (CGF), to the State, or to the federal government, are recovered by DMH. However, DMH does not have a mechanism to determine which funding source (federal, State, CGF) was over-billed nor a procedure to return the collected funds. This has become a material problem as the amounts of questioned costs have increased in recent years and may continue to increase due to enhanced County-operated clinic and contract provider evaluation procedures. DMH needs to implement a process for evaluating recovered overpayments and for distributing the funds to the original payer source.

Recommendation

73. DMH implement a process for evaluating recovered overpayments and distributing the funds to the original payer source.

10% Limitation on Contract Amendments

Until the final months of FY 2001-02, the Board of Supervisors allowed the Director of Mental Health to prepare and sign contract amendments without additional Board approval provided that total payments to a contractor under each agreement for each fiscal year did not exceed a change of ten percent from the starting Maximum Contract Amount (MCA). At that time they adopted a new policy which raised the limit to 20%. We randomly selected two contracts with an MCA and found that one was amended by an amount in excess of ten percent for two consecutive years without Board approval for the full amount over the ten percent.

During FY 2000-01, Contract DMH-00612 was amended internally five times and once with Board approval, increasing the original MCA by $293,645 (35.8%). The Board approved only $90,000 (11%). During FY 2001-02, this same contract was amended internally three times and once with Board approval, increasing the original MCA by $245,668 (29.9%). The Board approved only $90,000 (11%). Each individual amendment was for 10% or less of the MCA. In part, DMH accomplished this by increasing, with each amendment, the "starting" MCA by a like amount. Each subsequent contract increase was compared against 10% of the higher MCA to determine if the limitation on internal amendments had been exceeded. With this rationalization of the contract amendment limitation, DMH could bypass Board policy and double or triple the amount of a contract using a series of internally approved amendments.

DMH management indicated that their interpretation of the Board of Supervisor delegated authority to amend contracts is consistent with guidance provided by County Counsel. DMH needs to confirm County Counsel's interpretation of Board policy and monitor the cumulative value of contract amendments to ensure Board policy requiring approval for amendments exceeding the applicable Board-established threshold is not exceeded.

Recommendations

74. DMH request a formal County Counsel opinion interpreting the Board of Supervisor delegated authority to amend contracts.

75. DMH monitor the cumulative value of contract amendments to ensure Board policy requiring approval for amendments exceeding the applicable Board-established threshold is not exceeded.

Contracting Oversight

Maintenance of a centralized contracts division that is dedicated to managing the Department's contracting operations would help ensure that standardization and efficiency is established and maintained. However, we found that DMH's Contracts Division does not oversee the issuance of all the Department's contracts. Contracts are being written and issued by divisions and bureaus, independent of the Contracts Division.

The contracting problems noted in this report show that DMH needs to reconsider allowing its bureaus to execute contracts without the oversight of the Contracts Division. When we asked DMH management why the Contracts Division does not review/approve every contract, we were told they considered these to be "agreements", not contracts. A contract is an agreement between parties, giving each a legal duty to the other. An enforceable agreement is a contract. In another instance, we were told that historically this is the way it has always been done.

Enabling the Contracts Division to have at least final review and approval authority would help ensure that appropriate protective and penalty clauses were included; that the Department received the highest quality service at the best price; that the contract complies with all governing codes; and that all requirements of the Internal Services Department and the Board are met. Therefore, DMH management should require all future contracts to be reviewed and authorized by the Contracts Division.

Recommendation

76. DMH management require all future contracts to be reviewed and authorized by the Contracts Division.

CASH FLOW ADVANCE PROGRAM

Under the Cash Flow Advance Program (CFAP/Program), payments are made to service providers in advance of DMH receiving funds from the State and/or federal governments for the services being rendered.

Advances Approval Committee

To provide additional oversight for these advances and to shield the Program from criticism in those instances where the amount and timing of payments is subject to the discretion of an individual DMH manager, DMH should establish an Advances Approval Committee.

On the fiscal side of the Department, the DMH Finance Specialist has been solely responsible for rendering decisions regarding CFAP approvals. On the programs side, if there is strong disagreement with some aspect of the Finance Specialist's decision, the Deputy Director of Children Systems of Care and/or the Deputy Director of Adult Systems of Care may offer a counter proposal for consideration directly to the Director. In either instance, the appearance of having an objective decision-making process is important to the strength of the Program. The decision-making process would be stronger, less subject to criticism, and provide greater assurance that all advances are consistent with the Department's mission and criteria, if a high-level committee made the recommendation to the Director.

Recommendation

77. DMH establish an Advances Approval Committee comprised of the Finance Director, at least one executive-level Program Manager, and a representative from the Chief Administrative Office and charge the Committee with CFAP oversight responsibility.

EPSDT Financial Provision Subparagraph 4

There is an apparent conflict between the intent of one of the financial provisions and the literal wording of Subparagraph 4, Financial Provisions, of DMH's mental health service provider contracts. This provision reads in pertinent part as follows:

> "*Notwithstanding any other provision of the Agreement, in the event that Contract provides Early and Periodic Screening, Diagnosis, and Treatment Program services ..., Contractor shall be paid by County from*

Early and Periodic Screening, Diagnosis, and Treatment Program funds upon receipt from the State."

However, we noted that EPSDT funding is included in the CFAP and the County is advancing these funds to the contractors. DMH needs to resolve this conflict between the CFAP and the contracts.

Recommendation

78. DMH have Subparagraph 4 reviewed by County Counsel for consistency with the intent of the contracting parties and make changes as appropriate.

FIXED ASSETS AND PORTABLE EQUIPMENT

Physical Inventories

County Fiscal Manual (CFM) Sections 6.1.3 and 6.8.2 require departments to conduct annual physical inventories of all fixed assets and portable equipment and to reconcile the results to the department's master listing. According to DMH Administrative Services Bureau (ASB) management, they have not performed a comprehensive physical inventory of fixed assets since at least FY 1998-99. As a result, the Auditor-Controller's (A-C) Fixed Asset Listing may contain items that are obsolete or that have been disposed of as surplus. In addition, DMH does not know if significant thefts of fixed assets have occurred.

DMH needs to conduct an inventory of fixed assets and adjust their records to match the inventory results. The Department also needs to adjust the A-C's inventory records to reflect the disposition of surplus property.

Recommendations

79. DMH conduct an annual inventory of fixed assets and adjust their records to match the inventory results.

80. DMH adjust the Department of the Auditor-Controller's inventory records to reflect the disposition of surplus property, as required by County Fiscal Manual Section 6.10.2.

Centralization of Fixed Asset and Portable Equipment Management

CFM Section 6.1.2 states that controls over fixed assets are necessary to:

- Safeguard a sizeable investment
- Fix responsibility for the custody of equipment

- Provide data for financial reporting
- Provide documentation and accountability for reimbursement of depreciation under grants and proprietary service programs

No bureau or division within DMH is timely preparing EACS's. CFM Section 6.2.1 requires Departments to complete an EACS for each item received. During November 2002, the Department of the Auditor-Controller's (A-C) Accounting Division notified DMH management that DMH had EACS's outstanding for more than 30 days from invoice payment date for $1.55 million in fixed asset equipment purchases. The oldest payment was dated November 2000 and several payments were dated in 2001. As of March 2003, $720,000 of equipment invoice payments had outstanding EACS's. The oldest was still dated November 2000.

In addition, the A-C's Accounting Division has noticed instances of DMH not removing fixed assets from the A-C's inventory records after they are sold and DMH recognizes the revenue. As of June 30, 2002, inventory records were overstated by $21,172 due to this problem.

A contributing factor appears to be that the ASB does not have overall responsibility for control and maintenance of fixed assets. For example, responsibility for safeguarding and accounting for computer fixed assets and computer portable equipment has been transferred to DMH's Chief Information Office Bureau (CIOB).

DMH should re-establish the ASB as the organization with overall responsibility for control and maintenance of fixed assets and portable equipment, train all the bureaus and divisions in the County's requirements for control and maintenance of these items as described in the CFM, and ensure EACS's are filed with the ASB. DMH also needs to inform the A-C's Accounting Division of asset retirements and sales.

Controls would be improved if responsibility for maintaining records and for conducting equipment inventories was placed in the ASB. The ASB needs to maintain inventory listings of portable equipment items, inventory these items annually, and assign responsibility for the management and safekeeping of portable equipment at each location.

Recommendation

81. DMH re-establish the Administrative Services Bureau as the organization with overall responsibility for control and maintenance of fixed assets and portable equipment, train all the bureaus and divisions in the County's requirements for control and maintenance of these items as described in the County Fiscal Manual, and ensure Equipment Acquisition Check Sheets and notifications of equipment

retirements and sales are filed with the Department of the Auditor-Controller.

WAREHOUSE CONTROLS

DMH has two storeroom operations: an office warehouse and a pharmacy warehouse. The office warehouse is under the control of the Administrative Services Bureau (ASB) Chief while the pharmacy warehouse is under the control of the Director of Pharmacy. The office warehouse stocks and provides papers, forms and other office supplies to the headquarters facility and to other mental health facilities, as needed. Office warehouse staff are responsible for maintaining perpetual inventory records, receiving and issuing supplies, and performing physical inventories. The pharmacy warehouse stocks injectibles, bandages, and syringes used by DMH County-operated clinics. Patients are referred to contract pharmacies for other pharmaceuticals.

Office Warehouse Controls

Departments need to provide access controls for their computer systems that at least comply with the minimum requirements of County Fiscal Manual (CFM), Chapter 7, Computerized Information System Controls. We reviewed DMH's computerized office warehouse perpetual inventory system and noted the following control weaknesses:

- The system allows users to enter the same stock withdrawal multiple times. Each time the enter key is pressed, it reduces the available balance by the quantity of the order.
- The five storeroom staff have access to both inventory and all features of the system, including the ability to adjust inventory balances without a second-level approval being entered.

This condition could enable an employee to remove inventory without authorization and cover the theft with an inventory balance adjustment to the system. An inventory system with inadequate access controls and no separation of duties among staff also promotes the creation of inaccurate inventory balances and undermines the value of the system as a management tool. DMH management needs to enhance the office warehouse inventory system to comply with CFM, Chapter 7, with particular emphasis on system access controls.

Recommendation

82. **DMH management enhance the office warehouse inventory system to comply with County Fiscal Manual, Chapter 7, with particular emphasis on system access controls.**

Pharmacy Warehouse Controls

In order to have the most basic level of internal controls over a pharmaceutical inventory, the pharmacy warehouse needs, and does not have, a perpetual inventory system. In addition, there needs to be current policies and procedures governing the operation of the warehouse, including procedures for a periodic physical inventory and its reconciliation to the perpetual inventory system's balances. However, pharmacy warehouse policies and procedures are outdated, do not reflect current operations, and do not include physical inventory and system balance reconciliation procedures. As a result, DMH management cannot be certain that its pharmaceutical supplies inventory balances are correct or that material losses have not occurred.

Recommendations

83. DMH implement a perpetual inventory system for the pharmacy warehouse.

84. DMH revise the pharmacy warehouse policies and procedures to reflect current operations and include a requirement for periodic physical inventories that are reconciled to the perpetual inventory system balances.

TRAVEL EXPENSES

Reconciliation of Travel Billing Statements

Prior Recommendation 19 from the 1999 Payroll and Travel Review indicates that DMH management should require its Accounting Division to perform a written reconciliation of the American Express billing statements to authorized travel requests on a monthly basis.

Reconciling billing statements to authorized travel requests helps ensure the Department is billed only for authorized trips. DMH's Accounting Division now attempts a reconciliation by recording trips per the billing statements on a Billing Reconciliation Log and attempts to locate an approved travel request for each entry on the log. However, we found that the Accounting Division does not follow-up on discrepancies. Specifically, we noted the following:

- Of 193 entries on the Billing Reconciliation Log with a departure date between July 1, 2000 and June 30, 2001, the Accounting Division did not locate 51 (26%) travel request forms. These 51 trips totaled $17,610. After this finding was brought to the DMH's attention, it located 36 of these travel requests totaling $11,880.

- DMH was apparently billed twice for a $549 trip.

- One trip noted on a billing statement was not entered on the Billing Reconciliation Log.

Controls to prevent unauthorized travel expenditures are not as strong as they need to be. DMH management needs to ensure that DMH's Accounting Division performs a complete reconciliation between billing statements and authorized travel requests.

Recommendation

85. DMH management require its Accounting Division to perform a written reconciliation of the American Express billing statements to authorized travel requests on a monthly basis.

FLEET MANAGEMENT

Master List of Authorized Drivers

According to Department Policy No. 802.1, the Departmental Vehicle Coordinator is required to maintain a Master List of Authorized Drivers that includes all DMH authorized drivers' names, driver's license numbers, license class numbers, and any restrictions. The Department does not maintain a Master List of Authorized Drivers but does have a Driver Listing By Name Report that was generated by the Internal Services Department and dated August 1, 2001. Because the Driver Listing By Name Report does not include the drivers' license numbers, license class numbers, and restrictions, it is not as useful as it could be in controlling vehicle use. Maintaining a Master List of Authorized Drivers would assist in monitoring authorized drivers and the vehicles they are allowed to drive (e.g., passenger van drivers must have a Class B license). The Department should develop and maintain the Master List of Authorized Drivers as required by Department Policy.

Recommendation

86. DMH develop and maintain a Master List of Authorized Drivers as required by Department Policy.

CELLULAR TELEPHONES

DMH has issued approximately 372 cellular telephones to their employees at an annual cost of $127,000, including telephone purchases, repair, and airtime.

Cellular Telephone Management

DMH does not adequately control the assignment, use, or cost of cellular telephones. Our review disclosed the following problems:

- County Fiscal Manual (CFM) Section 4.5.2 requires these telephones to be controlled and accounted for. CFM Section 6.8.1 allows the use of a Department-issued tag for cellular telephone identification. CFM Sections 4.5.2 and 6.8.2 require that DMH maintain a department-wide list identifying permanent assignments and require a physical inventory of all portable equipment items at least once each year. However, DMH's cellular telephones have no identification tag, there is no complete inventory list of what has been issued or to whom, and no physical inventory has ever been taken.

- For eight months tested, an average of 74 cellular users per month had zero airtime. Annualized, the cost of having these unused telephones was approximately $25,000 ($127,000 times 74/372). Cellular telephone usage should be periodically reviewed to determine if the assignees still need their telephones.

- Section 4.5.2 requires employees to review their cellular telephone bills and reimburse the County for personal calls within 30 days. However, approximately 50% of the bills are not timely returned by cellular telephone users and DMH does not aggressively follow up to acquire the remaining bills. As of February 2002, DMH's Accounting Division had only partially performed a reconciliation of the Department's cellular telephone bills received since August 2001.

Recommendations

87. DMH periodically review the cellular telephone assignments and withdraw unused cellular telephones from service until there is a need to re-issue them.

88. DMH place identification tags on the cellular telephones, maintain a complete list of the telephones that have been issued, and periodically take a physical inventory.

89. DMH management ensure employees receive, review, and return copies of their bills in a timely manner.

INTERNAL CONTROL CERTIFICATION PROGRAM (ICCP)

County Code Section 2.10.015 requires each County department and special district to annually evaluate its fiscal controls in accordance with ICCP procedures established by the Department of the Auditor-Controller (A-C). Specific internal policies, procedures and practices are essential to safeguard County assets, provide accurate financial records, ensure compliance with County and departmental policies and promote efficiency and effectiveness of operations.

ICCP Effectiveness

Many of the deficiencies we identified in the Expenditure Accounting, Revenue Accruals, Trust Funds, Cash Handling, Grants, Fixed Assets and Portable Equipment, Warehousing, and Cellular Telephones Sections should have been detected when DMH staff completed related sections of the ICCP. However, the FY 2001-02 certification did not identify a significant number of these weaknesses. In addition, some mental health centers with internal control weaknesses identified during the FY 2000-01 ICCP review were reported as having the same weaknesses in the FY 2001-02 review. For example, the San Antonio, Coastal Asian Pacific, Roybal Family, and Long Beach Mental Health Centers were cited in both years for having specific separation of duties problems in cash handling.

DMH management should require staff to accurately complete the ICCP questionnaires for all applicable assessable units, identify all weaknesses, and develop an improvement plan to address each internal control problem identified. Departmental management should review completed ICCP questionnaires and improvement plans.

Recommendations

DMH management:

90. Require staff to accurately complete the Internal Control Certification Program questionnaires for all applicable assessable units, identify all weaknesses, and develop an improvement plan to address each internal control problem identified.

91. Review the completed Internal Control Certification Program questionnaires and improvement plans.

Scope of Review

Countywide, the annual ICCP is administered by the A-C and any changes to the annual requirements need to be approved. However, DMH has not always reviewed controls at all DMH-operated clinics annually and did not have the A-C's approval for this deviation. Through FY 2000-01, DMH-operated clinics were reviewed on a two-year cycle rather than every year as required. According to DMH management, this occurred because of limited staff and high turnover. Although an effort was made to review all clinics for FY 2001-02, the unit with overall responsibility for ensuring the ICCP is completed was not certain if the various other units had performed their review responsibilities at all required sites. There are 58 DMH-operated clinics. The unit in charge could document only 14 having been reviewed during FY 2000-01 and 29 during FY 2001-02.

Recommendation

92. DMH perform the ICCP review annually at all locations or obtain the Auditor-Controller's approval to use a different cycle.

Recommendation Implementation Tracking System

As indicated above, implementation and maintenance of internal control policies, procedures, and practices is a CFM requirement and the ICCP is provided as a tool to accomplish this goal. However, DMH has not fully resolved the weaknesses identified during the ICCP review for FY 2000-01. This condition has contributed to the control problems cited in this report. According to Financial Services Bureau management, this lack of follow-up was caused in part by a 100% turnover of staff assigned this duty.

DMH has another management support tool that could help, a microcomputer-supported Recommendation Tracking System established at the direction of the Director. The system tracks the status of all outstanding recommendations by responsible DMH manager. The Director requires that a status report from this system be generated every other month for his review and his determination of any additional action that needs to be taken by his office. DMH should expand the use of this tracking system to include monitoring progress achieved on action plans developed during the ICCP review.

Recommendation

93. DMH expand the use of the Recommendation Tracking System to include monitoring progress achieved on action plans developed during the ICCP review.

Status: According to DMH management, this recommendation has been implemented.

CHARITABLE GIVING

During FY 1999-00, the Department of the Auditor-Controller's (A-C) resident audit team participated in a series of discussions with DMH regarding the need for additional controls over their annual Charitable Giving Campaign (CGC) activities. During the current Fiscal Review, we determined that DMH had not implemented all of our suggested controls and was still having problems managing charitable giving activity.

Charitable Giving to Benefit DMH Activities

The Financial Services Bureau (FSB) is responsible for handling the Department's financial transaction processing and reporting, including acting as trustee and custodian at the departmental level for donations and charitable contributions. The FSB identified several DMH County-operated clinics that had promoted charitable giving campaigns in the name of DMH and/or Los Angeles County, collected donations, and failed to forward the donations to the Department. For example, the FSB indicated that one clinic received various donations during calendar year 2001 totaling $3,807. Of this amount, the clinic spent $2,526 on its Cinco de Mayo festival, leaving a balance of $1,281. DMH staff conducted a surprise cash count and discovered a $980 shortage.

Policies and procedures need to be implemented to guarantee that County-operated clinics acquire prior written permission to engage in charitable giving activity to benefit DMH activities, that donations are only used consistent with the expressed wishes of the donor, and that there is documentation as to what those wishes are. DMH must monitor to ensure these controls are functioning as intended.

In addition, DMH needs to establish controls to ensure that funds collected in charitable giving campaigns in the name of DMH and/or Los Angeles County are placed in the Donations Trust Fund. To ensure that donors are not misled and that donors have assurance that their contributions will be used for the purpose(s) for which the funds were donated, DMH must effectively control this activity.

Recommendations

94. DMH ensure policies and procedures are implemented to guarantee there is prior written permission to engage in charitable giving activity, that donations are only used consistent with the expressed wishes of the donor, and that documentation is on file as to what those wishes are. DMH monitor to ensure these controls are functioning as intended.

95. DMH ensure that funds collected in charitable giving campaigns to benefit DMH are placed in the Donations Trust Fund.

Charitable Giving to Benefit Recognized Charities

DMH also needs to improve management of its CGC activities on behalf of external charities, such as the United Way, by fully complying with the FY 1999-00 suggestions made by the A-C.

- The CAO's Handbook encourages Departments to establish a CGC Committee comprised of representatives from all levels of the Department, including a labor representative if the Department has union represented employees. DMH does not have such a committee.

- A checking account needs to be opened in the name of the DMH CGC Committee with two signatures required to withdraw funds, including that of the Committee Treasurer. Making a bank deposit when total cash and checks on hand exceeds $300 or when it has been more than a week since the last deposit, whichever comes first, should be a goal.

- The CGC Committee should require a request for authorization form be filed prior to initiation of any charitable effort with an updated form filed to certify the results.

- Inventory should be counted before and after events with the money raised reconciled to the reduction in inventory.

- Two people should count the cash receipts with a record of the count created and certified for accuracy by the two counters. Mail receipts should be opened by two people, restrictively endorsed, and logged. The logs should be reconciled to a bank deposit or transmittal to a charity, with pre-numbered receipts sent to the donors. Other collections should be receipted to the degree practicable with all collections signed for by the Committee Treasurer and secured in a cash box or safe.

- The Committee should maintain a ledger with accounting entries showing charitable contribution activities. A simple ledger would greatly improve documentation of the flow of funds even if the postings were monthly summaries.

Recommendations

96. DMH establish a CGC Committee, including the CGC Coordinator, a Treasurer, a Secretary, a union representative, and a member of DMH Executive Management.

97. DMH open a checking account in the name of the DMH CGC Committee with two signatures required to withdraw funds, including that of the Committee Treasurer. Establish as a Committee goal the making of a bank deposit when total cash and checks on hand exceed $300 or when it has been more than a week since the last deposit.

98. The CGC Committee require a request for authorization be filed prior to initiation of any charitable effort with an updated form filed to certify the results.

99. Inventory be counted before and after events with the money raised reconciled to the reduction in inventory.

100. Two people count the cash receipts with a record of the count created and certified for accuracy by the two counters. Mail receipts be opened by two people, checks restrictively endorsed, and all cash and checks logged. The logs be reconciled to a bank deposit or transmittal to a charity, with pre-numbered receipts sent to the donors. Other collections be receipted to the degree practicable with all collections signed for by the Committee Treasurer and secured in a cash box or safe.

101. The Committee maintain a ledger to account for charitable giving activity.

COUNTY OF LOS ANGELES

MARVIN J. SOUTHARD, D.S.W.
Director

SUSAN KERR
Chief Deputy Director

RODERICK SHANER, M.D.
Medical Director

DEPARTMENT OF MENTAL HEALTH

http://dmh.co.la.ca.us

550 SOUTH VERMONT AVENUE, LOS ANGELES, CALIFORNIA 90020

Reply To: (213) 738-4601
Fax: (213) 386-1297

August 1, 2003

TO: J. Tyler McCauley
Auditor-Controller

FROM: Marvin J. Southard, D.S.W. Marvin J. Southard
Director of Mental Health SK

SUBJECT: **DEPARTMENT OF MENTAL HEALTH FISCAL REVIEW**

Attached is our response to the recommendations made in your fiscal review of the Department of Mental Health. We appreciate the cooperation extended to us by the Auditor-Controller (A/C) through the fiscal review process. We are equally appreciative for the opportunity this process has allowed the A/C and DMH to work together over the past 3 to 4 years for the continuing quality enhancement of the Department's operation. Some of the recommendations mentioned in the report were for earlier periods and because of the productive interaction between the A/C auditors and the Department's staff, DMH was able to implement resolutions to identified operational deficiencies during the course of the review.

I would like to mention that a number of recommendations contained in the report resulted from and were attributable to the MIS, an antiquated and obsolete system, which poses a constant challenge for the Department. The HIPAA-Integrated System will enable the Department to be HIPAA-compliant and will also bring about a state-of-the-art resolution to the electronic needs of the various operations enhancing certain functions cited in your report.

If you have any questions, please call me at 738-4601, or your staff may contact Susan Kerr at 738-4108.

MJS:SK:GSK:rn

Attachment

COUNTY OF LOS ANGELES – DEPARTMENT OF MENTAL HEALTH

DMH FISCAL REVIEW – "DRAFT" REPORT
RESPONSE TO RECOMMENDATIONS

Recommendation #1:
Mental Health management review the methods used to project the various revenue types to identify areas where the projections could be improved.

Status:

Response:
The area that was discussed and agreed upon is to align the revenue budget amounts with the County's general ledger known as Countywide Accounting and Purchasing System. During the development cycle of the Department's budget, the revenue account used may ultimately not be appropriate as additional information is obtained. We will initiate the dialog with both the Chief Administrative Office (CAO) and the Auditor-Controller (A/C) on process necessary to move the revenue balances to the appropriate accounts.

Persons Responsible For Implementation:
Chief, Budget and Reimbursement Division – Michael Motodani, Fiscal Officer – Kimberly Jenkins.

Recommendation #2:
The County use more budget units to improve control and monitoring over DMH's budget.

Status:

Response:
The Department will implement as a pilot project a distinct budget unit for FY 2004-05 for the services of the Public Guardian. Experience gained through the pilot will provide the useful information on the feasibility of implementing this concept Departmentwide. We will report our findings at the close of FY 2004-05.

Persons Responsible For Implementation:
Chief, Budget and Reimbursement Division – Michael Motodani and Fiscal Officer I – Kimberly Jenkins.

Recommendation #3:
If DMH believes such controls would be too restrictive, the County and DMH consider using the "presence control" feature of the Countywide Accounting and Purchasing System.

Status:

Response:
We are currently reviewing the pros and cons of using the "presence control" feature and will complete our analysis by October 31, 2003

Persons Responsible For Implementation:
Under review.

<u>Recommendation #4</u>:
DMH management ensure that accounts payable are established only for goods and services received on or before June 30.

Status:
Implemented. Also enhanced controls for existing procedures were added in FY 2001-02.

Response:
The DMH believes that the recommendation does not fully address the services payment process for contracted services. While the recommendation accurately describes the condition for customary vendor accounts, it does not recognize the nature of the Incurred But Not Reported (IBNR) services in the health care industry (IBNR service is a healthcare industry recognized situation) and the time period of State Medi-Cal claim adjudication sequence.

DMH entirely relies on service providers to enter all their units of service into the DMH MIS system in a timely manner. Even if a service provider had entered all services, for dates of service occurring in the closing fiscal year, by close of business on June 30, the actual paid claim status, and hence the accounts payable, is not determined by County billings until approximately two (2) months later; and not by the State until about two (2) years after. The year-end closing for accounts payable occurs with fourteen (14) months of approval processing to still occur because State statute permits service providers to submit claims for Medi-Cal services up to twelve (12) months beyond the close of a fiscal year. Accordingly, DMH establishes its accounts payable for the contracted services based upon maximum contract amounts and actual expenditure estimates for the IBNR services.

In summary, the DMH agrees with Recommendation #4 for general vendors and disagrees for contracted Medi-Cal service providers. The DMH recommends revising Recommendation #4 as follows: DMH Accounts Payables – Establish for mental health services/activities rendered on or before June 30 on the best estimates for IBNR and future late adjudication activity over the next twelve (12) to fourteen (14) months for reported services as of June 30. If best estimates are not accurate enough, Medi-Cal services should be reported on a cash basis to promote timely payments and consistent reporting.

Accounting Division ensures that accounts payable are established only for goods and services received on or before June 30, but not paid for until the next fiscal year.

Persons Responsible For Implementation:
Chief Financial Officer - Gurubanda Singh Khalsa, Chief, Accounting Division - Judith V. Weigand, Chief, Provider Reimbursement Unit - Stella Toulbendjian, Accounting Officer II - Lorna A. Surendranath, Accounting Officer I/Supervisor Vendors Payable Section - Sankar Das, and Accounting Officer I/Supervisor Expenditure Section - Sung Lee.

Recommendation #5:
DMH management ensure all valid payables are accrued.

Status:
Implemented. Also in FY 2001-02, DMH enhanced controls for existing procedures in place at the time.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna A. Surendranath, Accounting Officer I/Supervisor Vendors Payable Section - Sankar Das, and Chief, Provider Reimbursement Section - Stella Toulbendjian.

Recommendation #6:
DMH management ensure current year expenditures are not charged to the accruals.

Status:
Implemented in FY 2002-03 for FY 2001-02 and ongoing activities.

Response:
Staff have been reminded verbally to comply with the A/C closing instructions. These instructions specify that payments for goods or services actually received on or before June 30 are to be paid via an on-line payment voucher. Accounts payable are to be reported/established only if criteria specified in the A/C closing instructions are met.

A/C has been working with DMH to ensure compliance and accuracy in the recording of expenditures and payables on CAPS during the closing process for fiscal year 2002-03.

Persons Responsible For Implementation:
Chief, Accounting Division – Judith V. Weigand, Accounting Officer II – Lorna A. Surendranath, and Chief, Provider Reimbursement Unit – Stella Toulbendjian.

Recommendation #7:
DMH management more closely monitor actual expenditures to available Maximum Contract Amount (MCA) and request Board approval to modify MCAs when needed.

Status:
Implemented July 1, 2002.

Response:
Starting July 1, 2002 for Fiscal Year 2002-2003, DMH took all necessary actions and implemented this recommendation by including the Medi-Cal program as part of the MCA for the Short Doyle Med-Cal providers. The policy decision to include all DMH management-approved programs in the MCA was the outcome of coordinated agreement in the latter part of FY 2001-2002 among the County CAO, A/C, County Counsel, and DMH.

The DMH, periodically during the year, issues a financial report identifying contracted service providers' actual payments compared to the MCA.

Persons Responsible For Implementation:
Chief Financial Officer - Gurubanda Singh Khalsa, Chief, Provider Reimbursement Unit - Stella Toulbendjian, Deputy Directors - Jim Allen, Tony Beliz, Ph.D., John Hatakeyama, Milton Miller, M.D., and Yvette Townsend.

Recommendation #8:
DMH management pay contract service providers on time.

Status:
Implemented July 1, 2002.

Response:
This recommendation has been implemented with the following necessary clarifications and conditions. The conditions reflect actual operating details not acknowledged in the recommendation.

Payment of "clean" claims within 30 days. For this purpose, clean claims pertain to complete and accurate invoices and/or claims that have passed electronic edits: MIS pre-claim submission, State adjudication and FSB internal system verification for duplicates and deletions.

1. Implemented July 1, 2002 for all clean claims for contracts where the MCA was in an amount equal or in excess to the actual program service level.

2. Implemented July 1, 2002, for all clean claims for contracts where the MCA was less than the actual program service level with the 30 days count down initiated on the day when a Board approved contract amendment is received for the payment amount in excess of the original MCA.

3. Implemented July 1, 2002 for all clean claims for contracts for which an additional amount has been determined by either an audit or settlement process with the 30 days count down initiated on the day when a Board approved contract amendment and/or Board authorization is received for the payment amount determined to be payable by the audit or settlement process.

DMH agrees with the recommendation; however, given the lengthy nature of various settlements and audits that take place after the end of any given fiscal year, DMH will pay at a point in time when it has reasonable basis for making payments for any given fiscal year.

Persons Responsible For Implementation:
Chief Financial Officer - Gurubanda Singh Khalsa and Chief, Provider Reimbursement Unit - Stella Toulbendjian.

Recommendation #9:
DMH management utilize available S&S appropriation to pay service providers.

Status:
Implemented.

Response:
The Department has implemented significant changes in the contract area to specifically identify the annual anticipated service levels. These contract enhancements are expected to mitigate the issues that were the basis of this finding and progress will be tracked. Significant collaborative efforts were made with the CAO, A/C, and County Council in the development of this solution.

Persons Responsible For Implementation:
Chief, Budget and Reimbursement Division – Michael Motodani.

Recommendation #10:
DMH management ensure that current year appropriations are not used to pay prior year expenditures.

Status:
Partially implemented. Target full implementation: December 15, 2003.

Response:
Staff have been verbally reminded that current year appropriations are not to be used to pay prior year expenditures unless the Board has approved current year appropriations for such purposes. Board approval may be through the budget process or Board Letter. DMH will establish a written policy to ensure DMH staff are aware current year appropriation is not to be used to pay prior year expenditures unless Board approved.

Persons Responsible For Implementation:
Chief, Accounting Division – Judith V. Weigand, Accounting Officer II – Lorna A. Surendranath, and Accounting Officer I/Supervisor Vendors Payable Section – Sankar Das, and Chief, Provider Reimbursement Section – Stella Toulbendjian.

Recommendation #11:
DMH management re-emphasize the importance of the Board's prohibition on retroactive contracting and cease charging prior year contract expenditures to current year contracts.

Status:
Implemented July 1, 2002 and re-emphasized on May 29, 2003.

Response:
Contracting internal control: Implemented. On May 29, 2003 the DMH contracting personnel re-emphasized via e-correspondence to DMH managers the CAO's letters dated September 7 and 21, 2000 regarding the Board prohibition on retroactive contracting. This had been communicated earlier to impacted DMH personnel.

Financial internal control: Implemented July 1, 2002. Effective July 1, 2002, the DMH ceased charging prior year contract expenditures to current year appropriation. When contract expenditures for a prior year are necessary, for the new Legal Entity contract language adopted by the Board effective for all contracts renewed on or after July 1, 2002, a current year Board amendment action to the prior year contract agreement is required. The current year expenditure for such an approved prior year expense is coded to the CAPS current year's prior year Minor Object Code.

Persons Responsible For Implementation:
Chief, Contracts Development and Administration Division - Richard Kushi, Chief Financial Officer - Gurubanda Singh Khalsa, and Chief, Provider and Reimbursement Unit - Stella Toulbendjian.

Recommendation #12:
Department management re-instruct fiscal staff on the criteria for establishing commitments and monitor to ensure that only necessary balances are maintained.

Status:
Implemented March 2002.

Response:
DMH notes that the finding does not disclose that on March 14, 2002 the Accounting Division requested the cancellation of $251,085 in commitments balance. A copy of the cancellation request was provided to A/C audit personnel at the Exit Conference on June 5, 2003.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna Surendranath and Accounting Officer I/Supervisor Vendors Payable Section – Sankar Das.

Recommendation #13:
DMH management ensure it complies with County revenue accounting requirements.

Status:
Implemented June 2002.

Response:
DMH fully complies with County revenue accounting requirements.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand and Fiscal Officer I - Leticia Moisa.

Recommendation #14:
DMH management ensure cash flow problems are promptly reported to the Board, CAO, and Auditor-Controller.

Status:
Implemented July 2002.

Response:
A staff person has been given the assignment of monitoring all cash flow; and all amounts due to the Department. Reports have been created to keep the Director of Financial Services and the

Accounting Division Chief informed of the status of cash flow and they will report any problems immediately to Executive Management who will notify the Board, CAO and A/C.

Persons Responsible For Implementation:
Chief, Accounting Division – Judith V. Weigand, Fiscal Officer I - Leticia Moisa, and Reconciliation & Trust Accounting Supervisor - Harry Moy.

<u>Recommendation #15</u>:
DMH management ensure it is aware of and pursues available regulatory remedies to improve cash flow.

Status:
Implemented July 2002.

Response:
DMH will ensure it is aware of and pursues available regulatory remedies to improve cash flow.

Persons Responsible For Implementation:
Chief Financial Officer - Gurubanda Singh Khalsa and Chief, Accounting Division - Judith V. Weigand.

<u>Recommendation #16</u>:
DMH compare their accrual approach against the State's methodology, eliminate inconsistencies, and fully document each element of their calculation.

Status:
Disagree with audit recommendation.

Response:
During the close of FY 2001-02, the DMH worked with the A/C to ensure that EPSDT accruals were established such that the amount of the accrual was both measurable and available. Available meaning that the amount of the accrual is collectible within the next twelve months following the close of the fiscal year in which the accrual was established. Any portion of the accrual not available was to be accrued in the fiscal year in which collectibility would occur.

Also, during FY 2002-03, the DMH worked with the State to establish a method of determining how much EPSDT would be earned. State estimates had been greatly understated since the inception of EPSDT program in 1995-96 through 2002-03. The State has changed its methodology for paying EPSDT to Counties as of FY 2003-04. There will no longer be an advance allocation but rather Counties will be paid using service approval data. The result will be that EPSDT cash flow will be paid more timely. That is, Counties will not have to wait until EPSDT settlement to receive revenues, i.e., as services are provided/approved. Los Angeles County-DMH, in collaboration with the California Mental Health Directors Association (CMHDA), was instrumental in working with State DMH to make this disbursement/revenue system a reality.

DMH will be continuing to work with the State so as to implement the State's methodology for EPSDT settlement. It is the goal of both the State and the CMHDA to establish a settlement process that can be integrated into the Federal Financial Participation (FFP) Cost Reporting and Settlement process. This will ensure both efficiency and effectiveness in the reporting and settlement process.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand and Fiscal Officer I - Leticia Moisa.

The following four recommendations are addressed together:

Recommendation #17:
DMH repair the Monthly Activity and Accounts Receivable (MAAR) computer software at all locations where the system does not operate properly.

Recommendation #18:
DMH ensure that County-operated clinics submit the MAAR reports monthly.

Recommendation #19:
DMH's Financial Services Bureau (FSB) review and account for all MAAR reports and ensure the clinics actively pursue outstanding account balances and refer uncollectible accounts at County-operated clinics to the Treasurer and Tax Collector (TTC).

Recommendation #20:
DMH's FSB monitor outstanding receivables by reviewing the MAAR reports.

Status:
Target Implementation Date: October 2003.

Response:
The Department will implement these recommendations with the start-up of the HIPAA Integrated System. The new HIPAA Integrated System, to be in place in October 2003, is being designed to also perform the functions of the MAAR.

Persons Responsible For Implementation:
Chief Information Officer – Art Malinski.

Recommendation #21:
DMH's FSB include an accrual amount for unpaid Patient Fees in their fiscal year-end revenue accrual.

Status:
Agreed. Target Implementation Date: July 1, 2004.

Response:
Roselin Manila, State Auditor, confirmed that it is State policy that the accrual basis of accounting be used for revenue including patient fees. However, the County does not have an information system that accumulates this information. In past Cost Report audits, the State has accepted cash basis in lieu of the accrual basis of accounting for self-pay revenue due to this lack of County information needed to determine an accrual amount and the immateriality of the amount. The DMH understanding is that the HIPAA Integrated System will include patient liability permitting measurement for the accrual amount.

Persons Responsible For Implementation:
Chief Information Officer - Art Malinski, Chief Financial Officer - Gurubanda Singh Khalsa, Chief, Accounting Division – Judith V. Weigand, and Fiscal Officer I - Leticia Moisa.

Recommendation #22:
DMH establish and manage its accounts receivable at the point it sends the billing information to the State instead of waiting for the State to determine the amount it will pay.

Status:
Target Implementation Date: July 1, 2004.

Response:
This recommendation is specific to Federal Financial Participation (FFP) Medi-Cal claims. All other accounts receivable are managed from the point billing information is sent to the claimant.

The DMH FSB will begin development of an electronic ledger by August 15, 2003. This ledger will be for the purposes of tracking the amount billed for FFP, the amount approved, and the denied amounts. DMH FSB plans to have the ledger ready to test by December 31, 2003 with plans for full operation by July 1, 2004.

Persons Responsible For Implementation:
Chief Financial Officer – Gurubanda Singh Khalsa, Chief, Accounting Division – Judith V. Weigand, Fiscal Officer I – Leticia Moisa, and Reconciliation & Trust Accounting Supervisor – Harry Moy.

Recommendation #23:
DMH monthly request a status report on delinquent Cash Flow Loan accounts receivable and monitor the TTC's collection activities.

Status:
Target Implementation Date: September 30, 2003.

Response:
DMH will be drafting written procedures following the fiscal year 2002-03 close. DMH will be coordinating efforts with TTC. In addition, write-off of loans has been a previous concern of the A/C, we will have procedures reviewed and approved by A/C.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Fiscal Officer I - Leticia Moisa, and Revenue Section Supervisor - Leticia Rivera.

Recommendation #24:
DMH Management monitor procurement functions to ensure compliance with established policies.

Status:
Implemented July 31, 2003.

Response:
The Administrative Support Bureau (ASB) has assigned an Administrative Assistant III under the supervision of the ASB Assistant Chief, as compliance monitor for all phases of Departmental procurement operations.

Persons Responsible For Implementation:
Chief, Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez, Procurement Systems Monitor - Mary Norman, Procurement Supervisor – Merrietta Henry.

Recommendation #25:
DMH develop current written procedures for processing payment vouchers and purchase orders that include checklists to ensure that approvers follow required procedures.

Status:
Target Implementation Date: September 30, 2003.

Response:
Accounting Division and ASB will develop written procedures by September 30, 2003, for processing payment vouchers and purchase orders that include checklists to ensure that approvers follow required procedures.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna A. Surendranath, Accounting Officer I/Supervisor Vendors Payable Section - Sankar Das, and Chief, Administrative Support Bureau - Charlotte Carter.

Recommendation #26:
The Administrative Support Bureau's Procurement Section be responsible for performing a final review and approval of all DMH procurement transactions.

Status:
Implemented July 31, 2003.

Response:
The ASB performs final review and approval of all DMH procurement transactions (PT) reviews, including those PTs that are routed through the Chief Information Office and Training Bureaus. On June 20, 2003 ASB issued e-procedural instructions to all departmental units regarding submission of procurement requests forms. To ensure compliance, the ASB has assigned an Administrative Assistant III, under the supervision of the ASB Assistant Chief, as compliance monitor for all phases of the ASB procurement operations.

Persons Responsible For Implementation:
Chief, Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez, Procurement Systems Monitor – Mary Norman, and Procurement Supervisor - Merrietta Henry.

Recommendation #27:
DMH monitor its purchase order contracts to ensure they do not exceed the $100,000 threshold in the aggregate without Board approval.

Status:
Target Implementation Date: September 30, 2003.

Response:
The ASB tracks vendor expenditures by extracting data from its existing procurement database on a bi-monthly basis and notifies ordering sections when respective individual vendor expenditures reaches $90,000. To facilitate the monitoring and notification process, ASB staff is currently undergoing training for the use of the recently installed PC monitoring program.

Persons Responsible For Implementation:
Chief, Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez, Procurement Systems Monitor – Mary Norman, and Procurement Supervisor – Merrieta Henry.

Recommendation #28:
DMH management ensure Non-Agreement purchases costing from $1,500 to $5,000 comply with the requirement for three bids and purchases over $5,000 are processed through the Internal Services Department.

Status:
Implemented July 31, 2003.

Response:
The ASB has assigned an Administrative Assistant III as compliance monitor for all phases of Departmental procurement operations. All non-agreement purchases between $1,500 and $5,000 will comply with the three-bid requirement. Copies of all three bids will be retained. Any purchases over $5,000 will be processed through ISD.

Persons Responsible For Implementation:
Chief Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez, Procurement Systems Monitor – Mary Norman, and Procurement Supervisor – Merrieta Henry.

Recommendation #29:
DMH management ensure Procurement staff obtain required price quotes and document all relevant quote solicitation and Internal Services Department approval notifications.

Status:
Implemented July 31, 2003.

Response:
The ASB has assigned an Administrative Assistant III as compliance monitor for all phases of bureau procurement operations. Procurement staff will document all relevant price quote information and Internal Services Department (ISD) approval notifications.

Persons Responsible For Implementation:
Chief Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez, Procurement Systems Monitor – Mary Norman, and Procurement Supervisor – Merrieta Henry.

Recommendation #30:
DMH management ensure DMH require bids on procurements of material value to be signed and dated by the bidder.

Status:
Implemented July 31, 2003.

Response:
The ASB has assigned an Administrative Assistant III as compliance monitor for all phases of bureau procurement operations. Procurement staff will obtain signed and dated bids from vendors. All bids will be kept on file.

Persons Responsible For Implementation:
Chief Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez, Procurement Systems Monitor – Mary Norman, and Procurement Supervisor – Merrieta Henry.

Recommendation #31:
DMH management ensure Procurement staff comply with County and Internal Services Department policy regarding sole source purchases and maintain detailed records justifying the basis for sole source procurements.

Status:
Implemented July 31, 2003.

Response:
The ASB has assigned an Administrative Assistant III as compliance monitor for all phases of Departmental procurement operations. Procurement will comply with County and ISD policy for sole source purchases. Detailed records justifying these sole source purchases will be kept on file.

Persons Responsible For Implementation:
Chief Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez, Procurement Systems Monitor – Mary Norman, and Procurement Supervisor – Merrieta Henry.

Recommendation #32:
DMH management re-emphasize to Accounting Division staff the need to use vendor codes and monitor staff to ensure compliance.

Status:
Implemented 2001-02.

Response:
DMH will continue to monitor compliance as of the date DMH submits such CAPS Vendor Table Updates to the A/C. The DMH notes that the Accounting Division has submitted the CAPS Vendor Table Update Request form for the same vendor several times, and the A/C has not processed the requests timely.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna A. Surendranath, and Accounting Officer I/Supervisor Vendors Payable Section - Sankar Das.

Recommendation #33:
DMH submit a CAPS Vendor Table Update Request form when a vendor does not have a vendor code and there have been multiple purchases from that vendor.

Status:
Implemented 2001-02.

Response:
Accounting Division ensures that a CAPS Vendor Table Update Request form is submitted to the A/C when a vendor does not have a vendor code. However, the CAPS Vendor Table Update Request form that is submitted to the A/C is not processed timely. On several occasions, Accounting Division had to resubmit request.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna A. Surendranath, and Accounting Officer I/Supervisor Vendors Payable Section - Sankar Das.

Recommendation #34:
DMH request the Auditor-Controller to cancel the Vendor Table update authorizations of individuals authorized to perform payment voucher and/or purchase order transactions.

Status:
Target Implementation Date: September 30, 2003.

Response:
Effective February 2003, DMH transferred responsibility for approving changes to the Vendor Table to a manager that has no payment voucher approval capability yet has authorization to approve purchase order agreements. Further the parties requesting the vendor update still have payment approval authorization. This is because the DMH has insufficient staff at this time to do approvals if this person's approval authorization is rescinded. Accounting Division will consult with Ricky Deguchi of A/C's Audit Division regarding this matter.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna A. Surendranath, and Accounting Officer I/Supervisor Vendors Payable Section - Sankar Das.

Recommendation #35:
DMH contact the Department of the Auditor-Controller's CAPS Control Section to determine if there is an alternative to using the CAPS suspense file as a template database.

Status:
Implemented July 29, 2003.

Response:
On July 29, 2003 FSB has instructed staff to delete suspense templates 12 months after the close of each fiscal year or when all accrual transactions have been met, whichever comes first.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand and Fiscal Officer I - Leticia Moisa.

Recommendation #36:
DMH perform documented reviews of the CAPS suspense file at least twice each month and timely resolve suspense file transactions.

Status:
Implemented June 2003.

Response:
DMH is performing documented reviews of the CAPS suspense files at least twice each month and timely resolution of suspense file transactions has been initiated.

Persons Responsible For Implementation
Chief, Accounting Division - Judith V. Weigand, Fiscal Officer I - Leticia Moisa, and Accounting Officer II - Lorna Surendranath.

Recommendation #37:
DMH management ensure that payments are made to vendors within 30 days of receiving invoices.

Status:
Implemented July 1, 2002 for clean claims/invoices received by the Accounting Division. Payments are not made within 30 days of receiving claims/invoices when proof of receipt of goods or services (packing slips) are not forwarded to the Accounting Division by receiving clinics.

Clinic implementation (see response below) will be upon approval of the Accounting Divisions written procedures. Written procedures should be completed by November 30, 2003.

Response:
The FSB-Accounting Division pays vendors within 30 days of receiving clean claims/invoices. However, when proof of receipt of goods or services (signed packing slips) have not been forwarded by the clinics in a timely manner to the Accounting Division, the Accounting Division contacts DMH clinic(s) and/or Deputy Director(s). Such communication with DMH clinics and Deputy Directors is verbal and written and is on a continuous basis in order to obtain the needed documentation.

To ensure compliance, FSB-Accounting Division will formalize the existing notification/communication process by means of written procedures. The notification forwarded will instruct/require the Deputy Directors, District Chiefs and Program Managers to assess clinic operations. The purpose of the assessment is to determine what corrective action will be taken to improve/ensure the Accounting Division is provided timely documentation for payment of vendor invoices.

Persons Responsible For Implementation:
Accounting: Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna A. Surendranath, and Accounting Officer I/Vendors Payable Section - Sankar Das.

Program Clinic Operations: Deputy Directors – Jim Allen, Tony Beliz, Chris Fierro, John Hatakeyama, Milton Miller, M.D., and Yvette Townsend.

Recommendation #38:
DMH follow up on exception items shown on the Procurement Transaction Aging Report and document reasons for failure to pay vendors within 30 days of receiving the vendor's invoice.

Status:
Implemented. The recommended addition to the current aging report was made in June 2003.

Response:
Accounting Division follows up on exception items shown on the Procurement Aging Report and documents reasons for failure to pay vendors within 30 days of receiving the vendor's invoice.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna A. Surendranath, and Accounting Officer I/Vendors Payable Section - Sankar Das.

Recommendation #39:
DMH periodically analyze the reasons for non-timely payment shown on the Procurement Transaction Aging Report and modify payment procedures, as appropriate.

Status:
DMH agrees that a corrective action plan (CAP) is necessary to fix the current deficiency. FSB-Accounting Division has analyzed and sent out to clinics requests for the necessary documentation for paying an invoice(s). The current response process is flawed and needs correction. FSB-Accounting Division will formalize, by means of written procedures, the notification process to clinics of incomplete documentation. The procedures will require Deputy Directors, District Chiefs and Program Managers to take any necessary corrective action to improve upon the clinic operations to provide the necessary documentation for payment of vendor invoices. The DMH will implement the recommendation to improve on clinics invoice reporting procedures necessary to ensure timely payment of invoices.

Response:
FSB-Accounting Division will periodically analyze the reasons for failure to pay vendors within 30 days of receiving the vendor's invoice and modify payment procedures, as appropriate.

Persons Responsible For Implementation:
Accounting: Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna A. Surendranath, and Accounting Officer I/Vendors Payable Section - Sankar Das.
Program Clinic Operations: Deputy Directors – Jim Allen, Tony Beliz, Chris Fierro, John Hatakeyama, Milton Miller, M.D., and Yvette Townsend.

Recommendation #40:
DMH management determine why receiving reports are not processed timely.

Status:
Target Implementation Date: December 31, 2003.

Response:
Accounting Division will modify the Aging Report to record detailed data for follow ups, such as date of the last inquiry, on attempts to get receiving reports from the purchaser.

Program management will develop procedures and monitor to ensure clinics respond timely to Accounting/Administrative Services requests for necessary documentation.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna A. Surendranath, and Accounting Officer I/Supervisor Vendors Payable Section - Sankar Das.

Recommendation #41:
DMH modify the spreadsheet on which the Procurement Transaction Aging Report is based to enable recording detailed information regarding attempts to clear outstanding items. This information be included in the Aging Report.

Status:
Implemented July 31, 2003.

Response:
Accounting Division will modify the spreadsheet on which the Aging Report is based to enable recording detailed information regarding attempts to clear outstanding items, such as the date and status of the last inquiry to the purchaser or vendor.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna A. Surendranath, and Accounting Officer I/Supervisor Vendors Payable Section - Sankar Das.

Recommendation #42:
DMH monitor to ensure Procurement does not split purchase orders, as prohibited by CFM Section 4.3.1.

Status:
Implemented July 31, 2003.

Response:
The ASB has assigned an Administrative Assistant III as compliance monitor for all phases of Departmental procurement operations including the prohibition against splitting purchase orders.

Persons Responsible For Implementation:
Chief Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez, Procurement Systems Monitor – Mary Norman, and Procurement Supervisor – Merrieta Henry.

Recommendation #43:
DMH management ensure that individuals authorizing payment document that they have verified the correct amount to be paid.

Status:
Implemented June 2003.

Response:
Accounting Division confirms the invoice price to agreement price to ensure that the amount to be paid is correct.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna A. Surendranath, and Accounting Officer I/Vendors Payable Section - Sankar Das.

Recommendation #44:
DMH have a different employee prepare the trust requisitions than the employee who reconciles the requisitions to the "Paid Requisitions Report."

Status:
Implemented March 2003. The deficiency occurred because of hiring limitations. Work has been reprioritized to implement this recommendation with other less critical work being delayed.

Persons Responsible For Implementation:
Chief, Accounting Division – Judith V. Weigand, Fiscal Officer I – Leticia Moisa, and Accounting Officer II - Lorna Surendranath.

Recommendation #45:
DMH determine why this separation of duties deficiency was not reported as a FY 2000-01 ICCP weakness and make appropriate corrections to their control review process.

Status:
Target Implementation Date: December 31, 2003.

Response:
The DMH determined the separation of duties deficiency was an oversight. Subsequently, self-evaluating assessable units must identify internal control implementation deficiency on the Summary of ICCP Weakness worksheet.

FSB-Audit and Monitoring Unit (FSB-AMU) performs comparative review of completed ICCP questionnaires, weakness worksheet and improvement plans received from assessable units performing self-evaluation, i.e., not for veracity of the responses submitted. Deputy Directors, District Chiefs and Program Managers will be required to review/certify the accuracy of the responses and improvement plans contained in the completed ICCP worksheets submitted by assessable units under their respective oversight responsibility.

Persons Responsible For Implementation:
Deputy Directors – Jim Allen, Tony Beliz, Ph.D., John Hatakeyama, Milton Miller, M.D., Yvette Townsend, Chief, Accounting Division – Judith V. Weigand, and Chief, Audit and Monitoring Unit – Rosita Nacario.

Recommendation #46:
DMH follow-up with County Counsel to determine the validity of the Care for Conservatees transfers and, if found to be inappropriate, transfer the funds back into the trusts.

Status:
Partially implemented, County Counsel and the State have been re-engaged on this issue. Target Implementation Date: August 31, 2003.

Persons Responsible For Implementation:
Third Party Revenue Recovery Unit - Alice Wong.

Recommendation #47:
DMH determine if the balance in the Care for Conservatees Trust is payable to the State.

Status:
Target Implementation Date: August 31, 2003.

Response:
DMH has re-engaged County Counsel and the State on this issue. The State has indicated that they expect payment. The Department has requested written instructions from the State. County Counsel is to review and identify any legal exceptions to the processing of payment to the State of the principal balance of the trust plus interest. Payment will occur on or before August 31, 2003 subject to instructions from County Counsel on whether or not to observe the State regulation permitting the State to recover these revenues. The audit report did not note that these funds are only for the period of July 1991 to August 1992 and subsequent to this period the County has been making payment as required by the County's State Performance Agreement and Budget Act of 1993.

Persons Responsible For Implementation:
Third Party Revenue Recovery Unit - Alice Wong.

Recommendation #48:
DMH management ensure that all out-of-class bonuses are recalculated each time the employees receiving these bonuses have a change in salary.

Status:
Implemented.

Response:
The Human Resources Bureau has made significant procedural changes to ensure continued implementation of this recommendation.

A monthly report is generated for out-of-class bonuses that require manual recalculation by the Information Systems Analyst II and the report is provided to the Processing Unit Supervisor for handling. Also, as out-of-class bonus requests are submitted for the Acting Personnel Officer's review and approval, they indicate if the bonus requires manual recalculation. This information is also provided to the Processing Unit Supervisor to ensure accuracy when entering the transaction into CWTAPPS. This also ensures that the employee information will be included in the monthly report.

Persons Responsible For Implementation:
Acting Personnel Officer - Denise Scates, Sr. Departmental Personnel Assistant - Beverly Williams, and Information Systems Analyst II - Diane Mendez.

Recommendation #49:
DMH management ensure that processing centers are utilized so that payroll and personnel staff do not have access to their own personnel and payroll information on CWTAPPS.

Status:
Implemented.

Response:
The Information Systems Analyst II is also the Department's CWTAPPS Coordinator who is responsible for assigning personnel and payroll staff to the appropriate processing center in accordance with the Assigned Staff Processing Center Report. The Acting Personnel Officer is responsible for reviewing and approving new and/or change requests for CWTAPPS access. The Acting Personnel Officer reviews the CWTAPPS Departmental user ID Roster monthly. Recently, a new process was implemented to have the Acting Personnel Officer, on a quarterly basis, randomly select personnel and payroll staff to attempt to access their own information on CWTAPPS. During the first testing, fourteen (14) staff attempted to access their own information on CWTAPPS and all were denied access.

Persons Responsible For Implementation:
Acting Personnel Officer - Denise Scates, and Information Systems Analyst II - Diane Mendez.

Recommendation #50:
DMH management utilize CWTAPPS reports to monitor the Department's payroll operations and ensure the Payroll Supervisor reviews the CWTAPPS reports as required by the County Fiscal Manual.

Status:
Implemented.

Response:
A committee, comprised of staff from the various Human Resources Units, was formed on March 13, 2002 to determine the number of CWTAPPS reports received, develop a distribution method, and develop a report detailing purpose, action to be taken, assigned responsibility and frequency of reports. During this process, twenty-six (26) payroll reports, which include 6 payroll exception reports were identified. The exception reports are worked by the Payroll

Clerks and reviewed and checked by the Payroll Supervisor. Reports are initialed and dated by both the employee responsible for working the report and the Payroll Supervisor. All reports are maintained in binders. The Acting Personnel Officer and the CWTAPPS Reports Committee monitor these activities quarterly during the CWTAPPS Reports Committee meetings.

Persons Responsible For Implementation:
Acting Personnel Officer - Denise Scates, Head Departmental Personnel Technical - Tammy Blair, Supervising Payroll Clerk III - Julia Melendez, and Mental Health Analyst I - Rhonda R. Parr.

Recommendation #51:
DMH re-evaluate the Departmental cash handling policies and procedures and either implement them or, within the constraints of the County Fiscal Manual, revise them to meet current Departmental needs.

Status:
Target Implementation Date: November 30, 2003

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Fiscal Officer I – Leticia Moisa, and Revenue Section Supervisor - Leticia Rivera.

Recommendation #52:
DMH ensure that the deposit policy is being followed at all County-operated clinics.

Status:
Target Implementation Date: September 30, 2003.

Response:
FSB-Accounting Division will annually issue reminders of the various County and DMH policies and procedures, such as County Fiscal Manual, DMH Policy/Procedure Manual, and DMH Controller's Policies and Desk Procedures Manual. Deputy Directors, District Chiefs, and Program Managers are responsible for the full implementation of these policies and procedures in their respective areas of operation. Specifically in regard to the deposit policy, FSB-Accounting Division will reissue the deposit policy and Deputy Directors, District Chiefs, and Program Managers will ensure implementation.

Persons Responsible For Implementation:
Chief, Accounting Division – Judith V. Weigand, Fiscal Officer I – Leticia Moisa, Deputy Directors – Jim Allen, Tony Beliz, Ph.D., John Hatakeyama, Milton Miller, M.D., and Yvette Townsend.

Recommendation #53:
DMH ensure that all County-operated clinics require two employees to open the mail and record receipts.

Status:
Target Implementation Date: September 30, 2003.

Response:
FSB-AMU will ask each Program Manager of the directly-operated clinics to submit an implementation plan to their respective District Chief and Deputy Director, which includes two employees who will be responsible for opening all mail and to record receipts. Each program will identify the employees responsible for this task.

Persons Responsible For Implementation:
Chief, Audit and Monitoring Unit – Rosita Nacario, Deputy Directors - Jim Allen, Tony Beliz, John Hatakeyama, Milton Miller, M.D., and Yvette Townsend.

Recommendation #54:
DMH ensure all County-operated clinics reconcile payments received to client billing files and sign out receipt books and use them in sequence.

Status:
Target Implementation Date: September 30, 2003.

Response:
FSB-Accounting Division will notify the Deputy Directors, District Chiefs, and Program Managers of any lapses in proper use of receipt books. Deputy Directors, District Chiefs, and Program Managers will initiate CAPs for any such identified lapses and follow-through on corrective actions.

Persons Responsible For Implementation:
Chief, Accounting Division – Judith V. Weigand, Fiscal Officer I – Leticia Moisa, Deputy Directors - Jim Allen, Tony Beliz, Ph.D., John Hatakeyama, Milton Miller, M.D., and Yvette Townsend.

Recommendation #55:
DMH formally assign responsibilities for cash handling and compliance with DMH and County Fiscal Manual policies and procedures at all Departmental locations, including Headquarters, Edelman, and Long Beach.

Status:
Target Implementation Date: September 30, 2003.

Response:
The Program Managers, with concurrence of their Deputy Directors and District Chiefs, will designate for their unit those personnel formally assigned responsibilities for cash handling and compliance. FSB-Accounting Division will develop and issue the necessary documentation form(s) for such designation of personnel.

Persons Responsible For Implementation:
Chief, Accounting Division – Judith V. Weigand, Fiscal Officer I – Leticia Moisa, Deputy Directors - Jim Allen, Tony Beliz, Ph.D., John Hatakeyama, Milton Miller, M.D., and Yvette Townsend.

Recommendation #56:
DMH require that at the end of the day, all cash and cash equivalent safekeeping locations be counted and reconciled by two people.

Status:
Target Implementation Date: September 30, 2003.

Response:
FSB-AMU will review the distribution of DMH Policy/Procedure and Controller's Policies and Desk Procedures Manuals to ensure all DMH directly-operated clinics have access to these procedures. FSB-AMU will require each Deputy Director, District Chief, and Program Manager with identified deficiencies in their cash and cash equivalent (i.e., bus tokens and stamps) to provide a CAP. The Deputy Directors will be responsible for the full implementation of the CAP for their respective units. For this particular recommendation, all cash and cash equivalents will be counted and reconciled by two people.

Persons Responsible For Implementation:
Chief, Audit and Monitoring Unit – Rosita Nacario, Deputy Directors - Jim Allen, Tony Beliz, John Hatakeyama, Milton Miller, M.D., and Yvette Townsend.

Recommendation #57:
DMH develop a formal, written policy on grant management that complies with the standards of County Fiscal Manual Section 8.2.2.

Status:
Target Implementation Date: December 31, 2003.

Response:
DMH will comply. Work has begun on a policy revision that will be submitted to the Department's policy and procedure review group by July 31, 2003 for final reviews, approvals and distribution.

Persons Responsible For Implementation:
Chief, Resource Development Division – Beth Briscoe.

Recommendation #58:
DMH identify the reasons available grant funds are not quickly utilized so that any necessary corrective actions can be taken to ensure SAMHSA funds are timely spent.

Status:
Target Implementation Date: September 30, 2003.

Response:
DMH is in agreement with this recommendation. FSB-Cost Report Section generates quarterly expenditure reports including the percentage of funds usage for use in monitoring utilization. DMH programs have assigned an individual the responsibility to identify available SAMHSA grant funds not being spent and ensure that corrective action is taken to ensure SAMHSA funds are fully utilized.

Persons Responsible For Implementation:
Deputy Director - Jim Allen and Chief, Budget and Reimbursement Division/Cost Report Section – Michael Boyle.

Recommendation #59:
DMH implement procedures and controls to ensure grant funds are received timely.

Status:
Implemented April 2003.

Response:
As in Recommendation #14, a staff person has been given the assignment of monitoring and following up on all cash flow; and all amounts due to the Department. Reports have been created to keep the Director of Financial Services and the Accounting Division Chief informed of the status of cash flow

Persons Responsible For Implementation:
Chief, Accounting Division – Judith V. Weigand, Fiscal Officer I - Leticia Moisa, and Reconciliation & Trust Accounting Supervisor - Harry Moy.

Recommendation #60:
DMH follow up on the June 2001 HUD reimbursement requests and ensure payment has been received.

Status:
Implemented June 2002.

Response:
DMH has followed up and payment has been received for all amounts due. The amount of $9,411 for the Connections Grant was received on July 18, 2001 as part of the 3rd quarter FY 2000-01 claim. The amount of $18,618 for the Positive Steps Grant was received on June 5, 2002.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Fiscal Officer I - Leticia Moisa, Reconciliations & Trust Accounting Supervisor - Harry Moy, and Revenue Section Supervisor - Leticia Rivera.

Recommendation #61:
DMH maintain an inventory of all grants with supporting information and documents, including significant deadlines that the Department must meet, the purpose(s) of the grants, and legal documents related to the grant award.

Status:
Target Implementation Date: December 31, 2003.

Response:
The existing list will be expanded to include all required information.

Persons Responsible For Implementation:
Chief, Resource Development Division – Beth Briscoe.

Recommendation #62:
DMH establish appropriate procedures and controls to ensure all potential grant sources are continually explored to ensure maximum grant funding of County operated programs.

Status:
Target Implementation Date: December 31, 2003.

Response:
A draft policy and procedure will be completed and forwarded to the Department's policy and procedure review group by July 31, 2003 for final reviews, approvals, and distribution.

Persons Responsible For Implementation:
Chief, Resource Development Division - Beth Briscoe.

Recommendation #63:
DMH consider grant management capability for inclusion in the new Integrated System and as a requirement of any replacement for the MIS, should the replacement project be re-started.

Status:
Agreed. Target implementation for October 16, 2003 if possible to include in the HIPAA Integrated System or at a subsequent future date should a MIS replacement system be started.

Response:
The Terminology, "grant management" is much too broad. If the A/C refers to the management billing records currently recorded by DMH in the MIS, then that should be the terminology ("billing records"). If the grants the A/C refers to include only those for which reimbursement is based on the treatment on DMH clients, for which the grantor requires the treatment record, then HIPAA covers them and they will be included in the Integrated System.

The statement, "the system will also, in certain instances, continue to bill for an inpatient consumer that has been discharged" is correct as long as we understand the "certain circumstances" to be that the users have not entered the discharge information into the system, so the system has no information about the discharge. The Integrated System will prevent users from transmitting a bill for inpatient services without a termination clause.

We concur with the recommendation.

Persons Responsible For Implementation:
Chief Information Officer - Art Malinski, Chief, Special Projects Division - John Campbell, Information Processing Manager – Fred Nazarbegian, Sierra Systems, and ISD.

Recommendation #64:
DMH develop procedures to periodically award and renew contracts for mental health services through a competitive bidding process and establish a goal to annually increase the number of contracts awarded competitively.

Status:

Response:
This issue has been referred by the Contracts Development and Administration Division (CDAD) to DMH Executives for their review and direction.

Persons Responsible For Implementation:
To be determined.

Recommendation #65:
DMH request a County Counsel opinion as to whether DMH's mental health service provider contracts are Proposition A contracts.

Status:
Target implementation date for obtaining Counsel's response - September 30, 2003.

Response:
DMH has requested County Counsel's opinion on this issue. Based on Counsel's response, the DMH will proceed appropriately.

Persons Responsible For Implementation:
Chief, Contracts Development and Administration Division – Richard Kushi.

Recommendation #66:
DMH develop bid evaluation policies and procedures that ensure:

A. The cost factor is not weighted less than any other category.
B. Material differences between the high and low scores are either resolved or accompanied by explanations.

C. Points awarded for a criterion do not exceed the maximum points allowed for that criterion.
D. Where a category is broken into criteria, points are awarded at the criteria level first and totaled to arrive at the overall score for the category.
E. Points added in significant amounts at the criteria or category levels are explained.

Status:
Implemented March 2003.

Response:
DMH fully complies with the guidelines set forth in the "Orientation to Basic Principle of County Contracting."

Persons Responsible For Implementation:
Chief, Contracts Development and Administration Division – Richard Kushi.

The following three recommendations are addressed together:

Recommendation #67:
DMH make cost-effective staffing of its County-operated clinics a higher priority.

Recommendation #68:
DMH select additional staffing categories for substitution into higher paying positions and work with the unions and County negotiators to achieve greater staffing flexibility and efficiencies.

Recommendation #69:
DMH develop "best practice" models for comparison to current operations in the existing 58 County-operated clinics and make operational changes to implement the models.

Status:
Partially Implemented. Implementation Date: July 2008.

Response:
For the past several years, the Department has been working in collaboration with family and advocacy groups, consumers, community-based providers, other partner departments and agencies, and DMH managers and staff to design a client-centered, family-focused, integrated mental health system. This new system of service delivery is referred to as the Comprehensive Community Care (CCC) initiative. The full CCC implementation was expected to take three to five years, and affect every aspect of the Department and the way it does business.

Due to budget concerns, implementation of this approach was delayed. DMH intends to make significant movement in implementing this approach during the next three years. An important area of concentration in the implementation of this model will be development of cost-effective staffing models for County-operated programs. It is anticipated that this will include activities related to implementation of Recommendation #68 as an avenue to achieving maximum efficiency and effectiveness. Concurrent with CCC implementation and staffing model evaluation, DMH plans to place greater focus on evaluating client outcomes. This data will also be considered in staffing configurations as appropriate.

With regard to best practices, DMH has an ongoing effort to assess and improve business practices and enhance revenue generation at directly-operated clinics. It is anticipated that "best practices" for business operations will be implemented system-wide.

Persons Responsible For Implementation:
Deputy Director, Planning and Program Support - Cora Fullmore.

Recommendation #70:
DMH and County Counsel expedite the re-write of the Legal Entity Agreement and include penalty provisions that provide Departmental management greater capability to encourage compliance with contract provisions.

Status:

Response:
This issue has been referred by the CDAD to DMH executives for their review and direction

Persons Responsible For Implementation:
To be determined.

Recommendation #71:
DMH monitor every contract covered by the Living Wage Ordinance for compliance with Ordinance provisions.

Status:
Implemented.

Response:
DMH CDAD sent staff to the County Living Wage Ordinance (LWO) Monitoring Training. A schedule has been established to provide monitoring and the completion of attendant reports, as follows:

LWO MONITORING SCHEDULE FOR ENKI		
Monitoring Date	Monitor(s)	Monitoring Report Due
July 29, 2003	Connie/Renee	August 5, 2003
August 26, 2003	Renee/Paul	September 2, 2003
September 30, 2003	Connie/Paul	October 7, 2003
October 28, 2003	Renee	November 4, 2003
November 25, 2003	Paul	December 2, 2003
December 30, 2003	Paul	January 6, 2004
January 27, 2004	Connie	February 3, 2004
February 24, 2004	Connie	March 2, 2004
March 30, 2004	Renee	April 6, 2004
April 27, 2004	Paul	May 4, 2004
May 25, 2004	Connie	June 1, 2004
June 29, 2004	Connie	June 6, 2004

Persons Responsible For Implementation:
Chief, Contracts Development and Administration Division – Richard Kushi.

Recommendation #72:
DMH update the County's Contractor Database to reflect violations of contract provisions by contractors with whom they conduct business.

Status:
Implemented.

Response:
DMH CDAD completes the Board mandated "Monthly Tracking Report for Board Approved Contracts" submitted to the A/C and CAO. In addition DMH complies with the County debarment procedures. However, there has been no recent necessity to invoke such provisions.

Persons Responsible For Implementation:
Chief, Contracts Development and Administration Division - Richard Kushi.

Recommendation #73:
DMH implement a process for evaluating recovered overpayments and distributing the funds to the original payer source.

Status:
Target date of Systems Changeover Implementation: October 16, 2003.

Response:
Agree. The Integrated System design requires tracking of payer source from data entry thru the close of each billing transactions. The current MIS does not have this capability.

Persons Responsible For Implementation:
Chief Information Officer - Art Malinski and Chief Financial Officer - Gurubanda Singh Khalsa.

Recommendation #74:
DMH request a formal County Counsel opinion interpreting the Board of Supervisor delegated authority to amend contracts.

Status:
Implemented July 21, 2003.

Response:
DMH has sent its request to County Counsel for a formal opinion interpreting the Board of Supervisor delegated authority to amend contracts.

Persons Responsible For Implementation:
Chief, Contracts Development and Administration Division – Richard Kushi.

Recommendation #75:
DMH monitor the cumulative value of contract amendments to ensure Board policy requiring approval for amendments exceeding the applicable Board-established threshold is not exceeded.

Status:
Implemented.

Response:
Each Contract Administrator has the responsibility of monitoring his/her contract's Maximum Contract Amount (MCA). The base MCA is then used to determine the extent of the 20% delegated authority.

Persons Responsible For Implementation:
Chief, Contracts Development and Administration Division – Richard Kushi.

Recommendation #76:
DMH management require all future contracts to be reviewed and authorized by the Contracts Division.

Status:

Response:
This issue has been referred by Contracts Development and Administrative Division to DMH executives for their review and direction

Persons Responsible For Implementation:
To be determined.

Recommendation #77:
DMH establish an Advances Approval Committee comprised of the Finance Director, at least one executive-level Program Manager, and a representative from the Chief Administrative Office and charge the Committee with CFAP oversight responsibility.

Status:
Disagree.

Response:
The Department, in close coordination with personnel from the A/C, CAO, and County Counsel, carefully and thoroughly rewrote Paragraph M, "Cash Flow Advance in Expectation of Services/Activities to Be Rendered", of the Legal Entity Contract to include the circumstances, parameters and conditions under which Cash Flow Advances are to be made. The Board has approved cash flow advances under these conditions. Additionally, the DMH Director, on June 4 and again on June 24 of 2003, notified the Board of certain special circumstance under which cash flow advances would be extended when the terms and conditions of financial viability were not satisfied. Accordingly, the conditions under which public funds are disbursed for cash flow advances are very specific and exceptions require Director or Board waiver authorization. An Advance Approval Committee would represent an administrative commitment that is duplicative to the revised protocols discussed and would also be inappropriate in lieu of Director and Board participation in the cash flow advance program because of the inherent financial risk to public funds. Also, the Department believes that the solution to County financial risks is a more timely billing cycle that decreases either public or private agencies' need for extensive lines of credit.

Persons Responsible For Implementation:
Chief Financial Officer - Gurubanda Singh Khalsa.

Recommendation #78:
DMH have Subparagraph 4 reviewed by County Counsel for consistency with the intent of the contracting parties and make changes as appropriate.

Status:
Target Implementation Date: July 1, 2004.

Response:
The DMH agrees and will recommend to County Counsel that contract language be amended to say "upon receipt of Medi-Cal approvals from the State." Sections 4.A.(3), 4.L.(d), (5), 4N. This change will be incorporated into a more extensive contract language revision project to be initiated in FY 2003-04.

Persons Responsible For Implementation:
Third Party Revenue Recovery Unit - Alice Wong.

Recommendation #79:
DMH conduct an annual inventory of fixed assets and adjust their records to match the inventory results.

Status:
Target Implementation Date: December 31, 2003.

Response:
DMH will conduct an annual inventory of fixed assets and adjust records to match the inventory results.

Persons Responsible For Implementation:
Chief Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez, and Fixed Asset Coordinator – Robert Woods.

Recommendation #80:
DMH adjust the Department of the Auditor-Controller's inventory records to reflect the disposition of surplus property, as required by County Fiscal Manual Section 6.10.2.

Status:
Target Implementation Date: December 31, 2003.

Response:
DMH will comply by ensuring that Property Transfer forms (TC-24) are completed indicating disposal/sale. This form will be forwarded to the A/C.

Persons Responsible For Implementation:
Chief, Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez, and Fixed Asset Coordinator – Robert Woods.

Recommendation #81:
DMH re-establish the Administrative Services Bureau as the organization with overall responsibility for control and maintenance of fixed assets and portable equipment, train all the bureaus and divisions in the County's requirements for control and maintenance of these items as described in the County Fiscal Manual, and ensure Equipment Acquisition Check Sheets and notifications of equipment retirements and sales are filed with the Department of the Auditor-Controller.

Status:
Disagree in part, agree in part. Implementation Date: CIOB/ASB coordinated inventory June 30, 2004. ASB update of A/C inventory, July 31, 2003.

Response:
The Chief Information Office Bureau (CIOB) has a full understanding of County policy and procedures with regards to maintenance of fixed assets and portable equipment. CIOB maintains a current inventory of computer fixed assets and portable equipment such as laptops and PDAs. The Administrative Support Bureau (ASB) maintains all other fixed assets such as vehicles, high density filing systems, and medical equipment. ASB is requesting that CIOB continue this practice, however, ASB will have overall responsibility for control and maintenance of all fixed assets and portable equipment. In addition, ASB will notify and train all clinics/programs on maintenance of inventory of all fixed assets and portable equipment located at their respective sites. They will also be instructed to conduct an annual inventory, maintain a copy of the inventory, and forward a copy to ASB. ASB will work with CIOB to develop an inventory database for maintaining information on fixed assets and portable equipment.

ASB and CIOB had fixed assets that were not tagged and check sheets that were not completed. ASB is now current with check sheets. Our current practice, implemented August 2002, is for check sheets to be prepared and submitted for any new fixed assets as soon as payment is made by the Accounting Division. CIOB is current with the exception of 8 check sheets which will be completed.

ASB will remove fixed assets from A/C inventory at the time the asset is salvaged or sold.

Persons Responsible For Implementation:
Chief Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez, Fixed Asset Coordinator – Robert Woods, and Chief Information Officer - Art Malinski.

Recommendation #82:
DMH management enhance the office warehouse inventory system to comply with County Fiscal Manual, Chapter 7, with particular emphasis on system access controls.

Status:
Implemented July 31, 2003.

Response:
Individual access codes for the warehouse inventory system will be issued to each employee. The ability to make changes in the warehouse system will be restricted to the warehouse supervisor and back-up supervisor only.

Persons Responsible For Implementation:
Chief Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez and Warehouse Supervisor – Robert Woods.

Recommendation #83:
DMH implement a perpetual inventory system for the pharmacy warehouse.

Status:
Implemented July 1, 2003.

Persons Responsible For Implementation:
Pharmacy Director - Arthur F. Schlichting, R.Ph.

Recommendation #84:
DMH revise the pharmacy warehouse policies and procedures to reflect current operations and include a requirement for periodic physical inventories that are reconciled to the perpetual inventory system balances.

Status:
Implemented July 1, 2003.

Persons Responsible For Implementation:
Pharmacy Director - Arthur F. Schlichting, R.Ph.

Recommendation #85:
DMH management require its Accounting Division to perform a written reconciliation of the American Express billing statements to authorized travel requests on a monthly basis.

Status:
Implemented July 2002.

Response:
The Travel Expense Coordinator performs a monthly reconciliation for all billing statements to authorized travel requests. Any discrepancies are followed up to ensure DMH is billed only for valid and authorized trips.

Persons Responsible For Implementation:
Chief, Accounting Division - Judith V. Weigand, Accounting Officer II - Lorna A. Surendranath, and Accounting Officer I/Supervisor Expenditure Section - Sung Lee.

Recommendation #86:
DMH develop and maintain a Master List of Authorized Drivers as required by Department Policy.

Status:
Target Implementation Date: December 31, 2003.

Response:
DMH will request each clinic/program to complete and submit a list of all employees authorized to drive a County vehicle and forward to the ASB. In addition, ASB will advise them of their responsibility to report changes to the list as they occur.

Persons Responsible For Implementation:
Chief Administrative Support Bureau – Charlotte Carter, Assistant Chief, ASB – Irma Valdez, Facilities/Space Manager – Antonette Jiminez, and Facility/Vehicle Maintenance Supervisor – Lucy Gomez.

Recommendation 87:
DMH periodically review the cellular telephone assignments and withdraw unused cellular telephones from service until there is a need to re-issue them.

Status:
Target Implementation Date: December 31, 2003.

Persons Responsible For Implementation:
Chief, Administrative Support Bureau - Charlotte Carter.

Recommendation #88:
DMH place identification tags on the cellular telephones, maintain a complete list of the telephones that have been issued, and periodically take a physical inventory.

Status:
Target Implementation Date: December 31, 2003.

Response:
The ASB has already begun this effort which is expected to be completed by December 31, 2003.

Persons Responsible For Implementation:
Chief, Administrative Support Bureau – Charlotte Carter, Cellular Telephone Supervisor - Rosemary Quentin, and DMH Telephone Coordinator - Margie Bilbrew.

Recommendation #89:
DMH management ensure employees receive, review, and return copies of their bills in a timely manner.

Status:
Target Implementation Date: December 31, 2003.

Persons Responsible For Implementation:
Deputy Director, Planning and Program Support - Cora Fullmore.

Recommendation #90:
DMH management require staff to accurately complete the Internal Control Certification Program questionnaires for all applicable assessable units, identify all weaknesses, and develop an improvement plan to address each internal control problem identified.

Status:
Target Implementation Date: April 2004.

Response:
A process using management reminders and reviews to ensure compliance will be implemented by the next ICCP cycle.

Persons Responsible For Implementation:
Deputy Director, Planning and Program Support - Cora Fullmore.

Recommendation #91:
DMH management review the completed Internal Control Certification Program questionnaires and improvement plans.

Status:
Target Implementation Date: September 2003.

Response:
FSB-AMU presently reviews completed ICCP questionnaires and CAPs received from assessable units performing self-evaluation, but only to the extent of the questionnaires and improvement plans content. FSB-AMU will review the CAP and notify the Deputy Directors, District Chiefs, Program Managers, and responsible managers of assessable units of inadequate CAP. Deputy Directors and responsible managers of assessable units will review and certify the accuracy of the CAP and will be responsible to ensure deficient CAP are rectified and will hold their Program Managers responsible for implementation of the CAP.

Persons Responsible For Implementation:
Deputy Directors: Jim Allen, Tony Beliz, Chris Fierro, Cora Fullmore, John Hatakeyama, Milton Miller, M.D., and Yvette Townsend.
Responsible Managers of Assessable Unit: Art Malinski, Gurubanda Singh Khalsa, Charlotte Carter, Denise Scates, Beth Briscoe, and Richard Kushi.

Recommendation #92:
DMH perform the ICCP review annually at all locations or obtain the Auditor-Controller's approval to use a different cycle.

Status:
Target Implementation Date: FY 2003-04 ICCP cycle.

Response:
Agree. The ICCP review will occur annually at all locations unless personnel resources are inadequate. If personnel resources are inadequate, the FSB-AMU will request A/C approval of a different cycle.

Persons Responsible For Implementation:
Chief, Audit & Monitoring Unit – Rosita Nacario.

Recommendation #93:
DMH expand the use of the Recommendation Tracking System to include monitoring progress achieved on action plans developed during the ICCP review.

Status:
Implemented August 31, 2002.

Persons Responsible For Implementation:
Chief, Audit & Monitoring Unit – Rosita Nacario.

Recommendation #94:
DMH ensure policies and procedures are implemented to guarantee there is prior written permission to engage in charitable giving activity, that donations are only used consistent with the expressed wishes of the donor, and that documentation is on file as to what those wishes are. DMH monitor to ensure these controls are functioning as intended.

Status:
Target Implementation Date: December 31, 2003. DMH Charitable Giving and Workplace Fundraisers Policy developed, approved, distributed by December 31, 2003.

Response:
DMH Workplace Giving Committee has already developed a form requiring prior written permission to engage in charitable giving activities. An official DMH policy regarding will be developed, approved, and distributed to all DMH staff and client groups. Included in this policy

will be a section regarding obtaining prior written permission to engage in charitable giving/fund raising activities – and donations being used consistent with the expressed wishes (on file) of the donor.

Persons Responsible For Implementation:
Administration Unit Program – Julia Moore and Department Workplace Giving Coordinator, Planning and Program Support Bureau – Sherrill Lee.

Recommendation #95:
DMH ensure that funds collected in charitable giving campaigns to benefit DMH are placed in the Donations Trust Fund.

Status:
Implemented.

Response:
The Los Angeles County/DMH Charitable Giving Campaign is never used to collect funds that benefit DMH. However, DMH client groups hold their own fundraisers (totally independent of the Board of Supervisors/CAO approved Charitable Giving Campaign). These monies are placed in the DMH Donation Trust Fund; all deposits and withdrawals are made within strict County and DMH guidelines. Detailed records of DMH client groups are kept by staff of the DMH Office of Consumer Affairs. DMH fiscal policies and procedures are in place to assure compliance. Copies of these policies and procedures consistent with the County Fiscal Manual have been distributed to the Office of Consumer Affairs and the DMH Client Coalition.

Persons responsible For Implementation:
Planning and Program Support Bureau Administration Unit Chief – Julia Moore.
DMH Workplace Giving Chairperson – Sherrill Lee.
Director of the DMH Office of Consumer Affairs – Ron Schraiber.

Recommendation #96:
DMH establish a CGC Committee, including the CGC Coordinator, a Treasurer, a Secretary, a union representative, and a member of DMH Executive Management.

Status:
Implemented.

Response:
DMH has complied.

Persons Responsible For Implementation:
Chief, Administration Unit - Julia Moore and Departmentwide Workplace Giving Coordinator, Planning and Program Support Bureau – Sherrill Lee.

Recommendation #97:
DMH open a checking account in the name of the DMH CGC Committee with two signatures required to withdraw funds, including that of the Committee Treasurer. Establish as a Committee goal the making of a bank deposit when total cash and checks on hand exceed $300 or when it has been more than a week since the last deposit.

Status:
Disagree. The DMH agrees in principle but has been unable to open bank accounts.

Response:
All checks are made out to one of the Board-approved Fund Agencies or to the CAO Workplace Giving Committee. All cash received is distributed to the Fund Agencies within a week of receipt of funds. The persons responsible for coordination of the DMH Workplace Giving Program have met with at least three banks in an effort to open a checking account in the name of the DMH CGC. None have been willing to accommodate DMH request at this time; this has been discussed with the CAO Workplace Giving Coordinator. In continuance of our effort, we will consult other county departments who have successfully opened checking account with local banks.

DMH Accounting Staff will contact TTC to begin the process for opening a County Checking Account.

Persons Responsible For Implementation:
Administration Unit Chief – Julia Moore and Departmentwide Workplace Giving Coordinator, Planning and Program Support Bureau – Sherrill Lee.

Recommendation #98:
The CGC Committee require a request for authorization be filed prior to initiation of any charitable effort with an updated form filed to certify the results.

Status:
Target Implementation Date: December 31, 2003.

Persons Responsible For Implementation:
Administration Unit Chief – Julia Moore and Departmentwide Workplace Giving Coordinator, Planning and Program Support Bureau – Sherrill Lee.

Recommendation #99:
Inventory be counted before and after events with the money raised reconciled to the reduction in inventory.

Status:
Target Implementation Date: December 31, 2003.

Persons Responsible For Implementation:
Administration Unit Chief – Julia Moore and Departmentwide Workplace Giving Coordinator, Planning and Program Support Bureau – Sherrill Lee.

Recommendation #100:
Two people count the cash receipts with a record of the count created and certified for accuracy by the two counters. Mail receipts be opened by two people, checks restrictively endorsed, and all cash and checks logged. The logs be reconciled to a bank deposit or transmittal to a charity, with pre-numbered receipts sent to the donors. Other collections be receipted to the degree practicable with all collections signed for by the Committee Treasurer and secured in a cash box or safe.

Status:
Target Implementation Date: December 31, 2003.

Persons Responsible For Implementation:
Administration Unit Chief – Julia Moore and Departmentwide Workplace Giving Coordinator, Planning and Program Support Bureau – Sherrill Lee.

Recommendation #101:
The Committee maintain a ledger to account for charitable giving activity.

Status:
Target Implementation Date: December 31, 2003.

Persons Responsible For Implementation:
Administration Unit Chief – Julia Moore and Departmentwide Workplace Giving Coordinator, Planning and Program Support Bureau – Sherrill Lee.